HALOZYME THERAPEUTICS INC
Form 424B5
February 05, 2014
Table of Contents

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered(1)	Amount to be registered(1)	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee(2)
Common Stock, par value $0.001 per share	8,846,153	$13.00	$114,999,989	$14,812

(1) Includes shares of common stock that may be purchased by the underwriters pursuant to the underwriters option to purchase additional shares.

(2) Calculated pursuant to Rule 457(r) under the Securities Act of 1933, as amended, or the Securities Act. The fee payable in connection with the offering of common stock pursuant to this prospectus supplement has been paid in accordance with Rule 456(b) under the Securities Act.

Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-179444

Prospectus Supplement

(To Prospectus dated February 9, 2012)

7,692,307 shares

Common stock

This is an offering of 7,692,307 shares of our common stock.

Our common stock is listed on The NASDAQ Global Select Market under the symbol HALO. The last reported sale price of our common stock on The NASDAQ Global Select Market on February 4, 2014 was $13.78 per share.

	Per Share	Total
Public offering price	$ 13.00	$ 99,999,991.00
Underwriting discounts and commissions	$ 0.78	$ 5,999,999.46
Proceeds to us, before expenses	$ 12.22	$ 93,999,991.54

We have granted the underwriters a 30-day option to purchase up to 1,153,846 additional shares of common stock at the public offering price less the underwriting discounts and commissions.

Investing in our common stock involves significant risks. See Risk Factors beginning on page S-12.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about February 10, 2014.

Joint book-running managers

J.P. Morgan **Citigroup**

Co-managers

Piper Jaffray **BMO Capital Markets**

February 4, 2014

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

	Page
About this Prospectus Supplement	S-ii
Prospectus Supplement Summary	S-1
Risk Factors	S-12
Special Note Regarding Forward-Looking Statements	S-29
Use of Proceeds	S-30
Price Range of Common Stock	S-30
Dividend Policy	S-30
Dilution	S-31
Material U.S. Federal Income Tax Consequences to Non-U.S. Holders	S-32
Underwriting	S-36
Legal Matters	S-40
Experts	S-40
Where You Can Find Additional Information	S-40

Prospectus

	Page
About this Prospectus	1
Summary	2
Risk Factors	6
Special Note Regarding Forward-Looking Statements	6
Statement of Computation of Ratios	7
Use of Proceeds	7
Description of Capital Stock	8
Description of Debt Securities	13
Description of Warrants	20
Description of Units	22
Legal Ownership of Securities	23
Plan of Distribution	26
Legal Matters	28
Experts	28
Where You Can Find More Information	28
Incorporation by Reference	29

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. If you rely on any unauthorized information or representations, you will do so at your own risk. This prospectus supplement and the accompanying prospectus are an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of their respective dates.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus dated February 9, 2012, including the documents incorporated by reference, provides more general information. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or in any document incorporated by reference that was filed with the Securities and Exchange Commission (SEC) before the date of this prospectus supplement, on the other hand, you should rely on the information in this prospectus supplement. If any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in the accompanying prospectus the statement in the document having the later date modifies or supersedes the earlier statement. You should read this prospectus supplement and the accompanying prospectus, including the information incorporated by reference and any free writing prospectus that we have authorized for use in connection with this offering, in their entirety before making an investment decision.

Neither we nor the underwriters authorized anyone to provide you with information that is different from or in addition to the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, along with the information contained in any free writing prospectus that we have authorized for use in connection with this offering. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering is accurate only as of the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus, and may not contain all of the information that is important to you. This prospectus supplement and the accompanying prospectus include information about the offering as well as information regarding our business. You should read this prospectus supplement and the accompanying prospectus, including the information incorporated by reference and any free writing prospectus that we have authorized for use in connection with this offering, in their entirety. If you invest in our common stock, you are assuming a high degree of risk. See Risk Factors beginning on page S-12.

Unless the context indicates otherwise or we expressly state to the contrary, as used in this prospectus supplement and the accompanying prospectus, the terms the Company, Halozyme, Halozyme Therapeutics, we, us and our refer to Halozyme Therapeutics, Inc., a Delaware corporation, and our operating subsidiary, Halozyme, Inc.

Overview

Halozyme is a science-driven, biopharmaceutical company committed to making molecules into medicines for patients in need. Our research focuses primarily on human enzymes that alter the extracellular matrix. The extracellular matrix is a complex matrix of proteins and carbohydrates surrounding the cell that provides structural support in tissues and orchestrates many important biological activities, including cell migration, signaling and survival. Over many years, we have developed unique technology and scientific expertise enabling us to pursue this target-rich environment for the development of therapies.

Our proprietary enzymes can be used to facilitate the delivery of injected drugs and fluids, thus enhancing the efficacy and the convenience of other drugs or can be used to alter abnormal tissue structures for clinical benefit. We have chosen to exploit our technology and expertise in a balanced way to modulate both risk and spend by: (1) developing our own proprietary products in therapeutic areas with significant unmet medical needs, such as diabetes, oncology and dermatology, and (2) licensing our technology to biopharmaceutical companies to collaboratively develop products which combine our technology with the collaborators proprietary compounds.

The majority of our approved product and product candidates are based on rHuPH20, a patented human recombinant hyaluronidase enzyme. rHuPH20 temporarily breaks down hyaluronic acid (HA) a naturally occurring substance that is a major component of the extracellular matrix in tissues throughout the body such as skin and cartilage. We believe this temporary degradation creates an opportunistic window for the improved subcutaneous delivery of injectable biologics, such as monoclonal antibodies and other large therapeutic molecules, as well as small molecules and fluids. The HA reconstitutes its normal density within several days and, therefore, we anticipate that any effect of rHuPH20 on the architecture of the subcutaneous space is temporary. rHuPH20 can thus be applied as a drug delivery platform to increase dispersion and absorption of other injected drugs and fluids that are injected under the skin or in the muscle thereby enhancing efficacy or convenience. For example, rHuPH20 can be used to convert drugs that must be delivered intravenously into subcutaneous injections or to reduce the number of subcutaneous injections needed for effective therapy. We refer to the application of rHuPH20 to facilitate the delivery of other drugs or fluids as Enhanze technology. rHuPH20 is also the active ingredient in our first commercially approved product, *Hylenex*® recombinant (hyaluronidase human injection). Additionally, we are expanding our scientific work in the extracellular matrix by developing other enzymes and agents that target its unique aspects, giving rise to potentially new molecular entities that can be indicated in endocrinology, oncology and dermatology.

Our proprietary pipeline consists of multiple clinical stage products in diabetes, oncology and dermatology. We currently have collaborations with F. Hoffmann-La Roche, Ltd. and Hoffmann-La Roche, Inc. (Roche), Pfizer Inc. (Pfizer), Baxter Healthcare Corporation (Baxter), ViroPharma Incorporated (ViroPharma) and Intrexon Corporation (Intrexon), with two products approved for marketing in Europe, one product candidate

Table of Contents

which has been submitted for regulatory approval in the U.S., one product candidate which has been submitted for regulatory approval in Europe and has received a positive opinion from the EU Committee for Medicinal Products for Human Use (CHMP), as well as several others at various stages of development.

Our operations to date have involved: (i) building infrastructure for and staffing our operations; (ii) acquiring, developing and securing proprietary protection for our technology; (iii) developing our proprietary product pipeline; (iv) entering into and supporting our collaborations with other companies to advance licensed product candidates; and (v) selling our own approved commercial product, *Hylenex* recombinant. Currently, we have received only limited revenue from the sales of *Hylenex* recombinant, in addition to other revenues from our collaborations.

Future revenues from the sales and/or royalties of our product candidates which have not been approved or have recently been approved will depend on the ability of Halozyme and our collaborators to develop, manufacture, secure regulatory approvals for and commercialize the product candidates. We have incurred net operating losses each year since inception, with an accumulated deficit of approximately $360.1 million as of September 30, 2013.

The following are the anticipated milestones for our product development programs in 2014:

Proprietary Products

PEGPH20

Complete enrollment in the on-going Phase 2 multicenter, randomized clinical trial (Study 202) evaluating PEGPH20 as a first-line therapy for patients with stage IV metastatic pancreatic cancer, in the second half of 2014.

Initiate patient enrollment in an additional solid tumor setting in the fourth quarter 2014.

Hylenex Diabetes Program

Announce top-line data from the 400 patient CONSISTENT 1 clinical trial evaluating the use of *Hylenex* in conjunction with rapid analog insulin in people with Type 1 diabetes using insulin pumps in the first quarter of 2014.

Submit clinical data from CONSISTENT 1 for publication at a major medical meeting in 2014.

Gain input from the U.S. Food and Drug Administration (FDA) on the path to secure an update to the *Hylenex* label to include key efficacy and safety data when used as a pre-treatment in patients with diabetes using insulin pumps.

HTI-501

Announce top-line data for HTI-501 from the 36 subject Phase 2 clinical trial in cellulite in the first quarter of 2014.

Collaboration Products

Roche expects to receive approval of the marketing authorization in the EU for MabThera SC during 2014.

Baxter expects to receive a response to its amended Biologic License Application (BLA) for HyQvia from the FDA in mid-2014.

Table of Contents

Product and Product Candidates

We have one marketed product and multiple product candidates targeting several indications in various stages of development. The following table summarizes our proprietary product and product candidates as well as two approved products and product candidates under development with our collaborators:

Proprietary Pipeline

Hylenex recombinant (hyaluronidase human injection)

Hylenex recombinant is a formulation of rHuPH20 that has received FDA approval to facilitate subcutaneous fluid administration for achieving hydration, to increase the dispersion and absorption of other injected drugs and, in subcutaneous urography, to improve resorption of radiopaque agents. We reintroduced *Hylenex* recombinant to the market in December 2011 after resolution of Baxter s voluntary recall and the return by Baxter of marketing rights to us. Upon its return to the market, our focus was to take advantage of the initial markets previously developed by Baxter. From May 2013 to September 2013, *Hylenex* was established as the number one prescribed HA. We are continuing to assess our commercial and strategic options for the product to address additional uses such as in connection with insulin pumps as described further below under *More Physiologic (Ultrafast) Insulin Program*.

Table of Contents

More Physiologic (Ultrafast) Insulin Program

Our most advanced proprietary program combines rHuPH20 with prandial (mealtime) insulin intended for the diabetes market. Diabetes mellitus is an increasingly prevalent, costly condition associated with substantial morbidity and mortality. Attaining and maintaining target blood sugar levels to minimize the long-term clinical risks is a key treatment goal for people living with diabetes.

The primary goal of our ultrafast insulin program is to enable a best-in-class prandial insulin product, with demonstrated clinical benefits for diabetes mellitus patients, in comparison to the current standard of care analog insulin products. Towards that goal, we pair rHuPH20 with prandial insulin to facilitate faster insulin dispersion in, and absorption from, the subcutaneous space into the vascular compartment, intended to lead to a faster insulin response and a shorter duration of action thereby potentially yielding a more physiologic insulin effect, similar to that found in non-diabetic people. A number of clinical trials investigating the various attributes of our product candidates have been completed.

We currently view two distinct opportunities to enter the prandial insulin market:

The first opportunity (what we refer to as the Continuous Subcutaneous Insulin Injection (CSII) market) is to pre-treat the insulin infusion site with *Hylenex* recombinant at the time of infusion site change (once every 3 days). Pump therapy is growing in the U.S. among patients with Type 1 and Type 2 diabetes. We believe that the pre-treatment of the infusion site with *Hylenex* recombinant could provide faster onset and shorter duration of insulin action. We currently intend to commercialize *Hylenex* recombinant in CSII ourselves, with an initial focus on adults with Type 1 diabetes.

For the CSII market, we have published interim data from a study evaluating the use of *Hylenex* recombinant in analog insulin pump therapy that showed pre-administration of *Hylenex* recombinant provided a more physiologic profile, with what appeared to be faster-on and faster-off effects than current rapid insulin analogs. Copies of these publications can be found at http://www.halozyme.com/Technology/Journals-Abstracts-And-Posters/default.aspx. Data from the double-blind cross-over study showed that pre-treatment of the infusion site with *Hylenex* recombinant, at the time of infusion set change, accelerated the absorption and shortened the action of mealtime insulin, provided a more consistent insulin action profile and improved post-prandial glucose control.

In preparation for commercializing *Hylenex* recombinant in the CSII market in Type 1 diabetes for pre-administration with analog insulin, we are conducting supportive clinical studies, developing our regulatory and commercial strategy, manufacturing product and developing the administration convenience kit. In the first quarter of 2013, we initiated CONSISTENT 1, the largest of several planned studies for the CSII market. The CONSISTENT 1 study is evaluating the safety and efficacy of *Hylenex* recombinant in a 24 month trial conducted in over 400 Type 1 diabetic patients who were randomized 3:1 to either rapid acting analog insulin (RAI) delivered by CSII with Hylenex or standard CSII using RAI alone. Subjects randomized to the Hylenex group administer 150 units of Hylenex once every three days through each new infusion cannula, immediately prior to initiation of insulin delivery. The primary efficacy endpoint is comparison of change from baseline of A1C levels (A1C is a measure of average blood sugar over three months) using an industry standard non inferiority margin of 0.4%. The time point for assessment of the primary endpoint for the study was recently changed from four months to six months based on feedback we received from the FDA. Secondary endpoints for the study are hypoglycemia rates, hyperglycemia comparisons, glucose variability and safety endpoints (adverse events, local tolerability and immunogenicity). Enrollment for this trial was completed in the third quarter of 2013. We plan to communicate top line results from the CONSISTENT 1 study in the first quarter of 2014. We are currently in dialog with the FDA regarding the path for a labeling update to include key efficacy and safety data prior to initiating promotion of *Hylenex* recombinant for this use.

The second opportunity (what we refer to as the Multiple Daily Injection (MDI) market) is to combine rHuPH20 with an FDA approved RAI, e.g., insulin lispro (Humalog®) (Lispro-PH20), insulin aspart (Novolog®) (Aspart-PH20) and insulin glulisine (Apidra®) (Glulisine-PH20), (each such combination, analog-PH20), to accelerate their action. Based on the need for broad commercial reach to successfully introduce a new prandial

Table of Contents

insulin to the injection market, we believe that to maximize value, partnering with a large biotechnology or pharmaceutical company with global access to both the primary care and endocrinology markets may be required.

With regard to the MDI opportunity, we published data from two treatment studies one in Type 1 diabetes patients and one in Type 2 diabetes patients. Copies of these publications can be found at http://www.halozyme.com/Technology/Journals-Abstracts-And-Posters/default.aspx. Both studies met their primary endpoints of A1C non-inferiority and improved post-prandial glucose control compared to patients who were treated with RAI alone. Additionally, data from the Type 1 diabetes treatment study indicated that Analog-PH20 formulations reduced hypoglycemia compared to RAI alone.

PEGPH20

We are developing PEGPH20, a new molecular entity, as a candidate for the systemic treatment of tumors that accumulate HA. PEGylation refers to the attachment of polyethylene glycol to rHuPH20, thereby creating PEGPH20. One of the novel properties of PEGPH20 is that it lasts for an extended duration in the bloodstream and, therefore, can be used to maintain therapeutic effect to treat systemic disease.

Solid malignancies often accumulate high levels of HA, including pancreatic, lung, breast, colon and prostate cancers, and therefore we believe that PEGPH20 has the potential to help patients with these types of cancer. Among solid tumors, pancreatic ductal adenocarcinoma is associated with the highest frequency of HA overexpression.

Over 100,000 patients are diagnosed with pancreatic cancer annually and are frequently not diagnosed until late stages. The pathologic accumulation of HA, along with other matrix components, creates a unique microenvironment for the growth of tumor cells compared to normal cells. We believe that depleting the HA component of the tumor architecture with PEGPH20 disrupts the tumor microenvironment, resulting in tumor growth inhibition. In addition, removal of HA rich matrix results in opening previously constricted vessels to allow anti-cancer therapies to have greater access to the tumor, which may enhance the treatment effect of complementary therapeutic modalities. Increased blood flow may also enable increased efficacy of radiotherapy treatment.

In June 2013, we presented the results from a Phase 1b clinical study of PEGPH20 in combination with gemcitabine for the treatment of patients with stage IV metastatic pancreatic cancer (Phase 1b PEGPH20 Clinical Study) at the 2013 American Society of Clinical Oncology (ASCO) Annual meeting. This study enrolled 28 patients with previously untreated stage IV pancreatic ductal adenocarcinoma. Patients were treated with one of three doses of PEGPH20 (1.0, 1.6 and 3.0 µg/kg twice weekly for four weeks, then weekly thereafter) in combination with gemcitabine 1000 mg/m2 administered intravenously. In this study, the overall response rate (complete response + partial response) by RECIST 1.1 criteria was 42 percent (10 of 24 patients, 95 percent CI 22 62 percent) for those treated at therapeutic dose levels of PEGPH20 (1.6 and 3.0 µg/kg) as assessed by an independent radiology review.

In September 2013, at the European Cancer Congress 2013, we presented exploratory post-hoc analysis of progression free survival and overall survival of a small subset of patients treated with PEGPH20 with available biopsy samples and HA scores in the Phase 1b study. Both progression free survival and overall survival were longer in patients with high levels of tumor HA compared to patients with low levels of tumor HA. The observation that patients with tumors characterized by high levels of HA may respond best to PEGPH20 has resulted in our effort to develop a companion diagnostic to enable pre-selection of these patients.

In the second quarter of 2013, we initiated a Phase 2 multicenter, randomized clinical trial evaluating PEGPH20 as a first-line therapy for patients with stage IV metastatic pancreatic cancer. Approximately 124 patients are expected to participate in the study and receive gemcitabine and nab-paclitaxel (ABRAXANE)

Table of Contents

either with or without PEGPH20. The primary outcome will be to measure progression-free survival between patients administered with PEGPH20 and those who are not. We expect to complete enrollment in this study in the second half of 2014. In addition, in October 2013, SWOG, a cancer research cooperative group of more than 4,000 researchers in over 500 institutions around the world, initiated a 144 patient Phase 1b/2 randomized clinical trial of PEGPH20 in combination with modified FOLFIRINOX chemotherapy (mFOLFIRINOX) compared to mFOLFIRINOX treatment alone in patients with metastatic pancreatic adenocarcinoma.

HTI-501

HTI-501, an engineered drug formulation variant of cathepsin L (a lysosomal proteinase), that acts by degrading collagen, is our first conditionally-active biologic. Collagen is an abundant protein in the body, particularly in connective tissue, and is present in high amounts in the extracellular matrix in the form of collagen fibers. Collagens are a class of helical proteins that are assembled into macromolecular fibrils and fibers. The collagen fiber network provides a structural scaffolding framework in the extracellular matrix. In the skin, these collagen fibers connect the superficial epithelial tissues to the underlying connective tissues. Collagen abnormalities contribute to a number of conditions, including frozen shoulder, Dupuytren s contracture, Peyronie s disease and cellulite.

A conditionally active biologic is a molecule that is only active under certain physiological conditions. HTI-501 is active under mildly acidic conditions and inactive at the neutral pH normally found in the tissue. The enzyme is combined with a mildly acidic buffer and injected in its active state. The enzyme is only active locally and for a short period of time. Once the mildly acidic conditions of the HTI-501 administration have been neutralized by the body, the enzyme becomes inactive. We intend to harness this conditional activity to exert control over the duration and location of the enzyme s therapeutic activity, potentially improving the efficacy or safety of this product candidate for both medical and aesthetic conditions.

We are exploring HTI-501 as an approach to the treatment of edematous fibrosclerotic panniculopathy, also known as cellulite. The condition affects the great majority of post-adolescent women and is prevalent in all races. We believe that the collagen fibers (fibrous septa) anchor the epidermis against the swelling of subcutaneous fat, which creates the dimpled appearance associated with the condition. We believe that HTI-501 deposited under the skin can release the tension in the collagenous fibrous septa and thereby smoothing the dimpled appearance of the skin. HTI-501 may also be potentially utilized as a treatment for other conditions involving collagen, such as frozen shoulder, Dupuytren s contracture, Peyronie s disease, keloids and hypertrophic scarring.

In September 2011, we initiated a Phase 1/2 clinical trial for HTI-501 outside the U.S. in women with moderate to severe cellulite. The Phase 1 dose-escalation portion of the trial was completed in 2012 while the ongoing Phase 2 portion of the trial is designed to assess the pharmacologic activity of HTI-501 and extend the safety assessment to multiple injections in a treatment area. In the third quarter of 2013, we completed the enrollment for the Phase 2 portion and the independent panel review of one month data.

Interim results from this trial were presented June 29, 2013 at the 9th Annual World Congress of Cosmetic Dermatology in Athens, Greece. The primary endpoint is physician assessment at Day 28, supported by secondary endpoints of subject self-evaluations and objective measurements of changes to the skin topography. The interim results from 12 of the planned 34 evaluable patients from this Phase 1/2 trial indicates pharmacologic activity at the primary 28 day observation point, with 83 percent of subjects (10 of 12) showing improvement from the pretreatment assessment, with a median improvement of 53 percent (p=.006) by the primary physician assessment. In comparison, 75 percent of subjects (9 of 12) showed improvement with a median improvement of 22 percent (p=.009) for the vehicle injection control at the same observation point. The objective measure (skin topography) for the treated area showed modest improvement in 80 percent of evaluable subjects (8 of 10) treated with HTI-501 (p=.042), but was not significantly changed for the vehicle control (p=.84) or a post-hoc evaluation of non-injected areas. To query the robustness of any study conclusions, an

Table of Contents

independent blinded panel evaluation of images will be performed on the evaluable subjects at one and six months following treatment. The HTI-501 enzyme and its formulation have been well tolerated so far in this trial at all doses and formulations tested, with no serious or severe adverse events. The most common side effects have been mild to moderate transient injection site discomfort and mild to moderate injection site bruising, resolving within about two weeks without intervention. We expect to report top line data at the three month and six month endpoints in the first quarter of 2014.

We currently do not have an investigational new drug application (IND) in the U.S., which would be required for us to conduct clinical trials in the U.S. for HTI-501. In order for us to file an IND, we will need to conduct significant development work including preclinical studies and manufacturing development.

Collaborations

Roche Collaboration

In December 2006, we and Roche entered into an agreement under which Roche obtained a worldwide, exclusive license to develop and commercialize product combinations of rHuPH20 with up to thirteen Roche target compounds (the Roche Collaboration). Roche initially had the exclusive right to apply rHuPH20 to only three pre-defined Roche biologic targets with the option to exclusively develop and commercialize rHuPH20 with ten additional targets. As of September 30, 2013, Roche has elected a total of five exclusive targets and retains the option to develop and commercialize rHuPH20 with three additional targets through the payment of annual license maintenance fees.

In September 2013, Roche launched a subcutaneous (SC) formulation of Herceptin® (trastuzumab) (Herceptin SC) in Europe for the treatment of patients with HER2-positive breast cancer. This formulation utilizes our recombinant human hyaluronidase (rHuPH20) and is administered in two to five minutes, rather than 30 to 90 minutes with the standard intravenous form. Roche received European marketing approval for Herceptin SC in August 2013. The European Commission s approval was based on data from Roche s Phase 3 HannaH study which showed that the subcutaneous formulation of Herceptin was associated with comparable efficacy (pathological complete response, pCR) to Herceptin administered intravenously in women with HER2-positive early breast cancer and resulted in non-inferior trastuzumab plasma levels. Overall, the safety profile in both arms of the HannaH study was consistent with that expected from standard treatment with Herceptin and chemotherapy in this setting. No new safety signals were identified. Breast cancer is the most common cancer among women worldwide. Each year, about 1.4 million new cases of breast cancer are diagnosed worldwide, and over 450,000 women will die of the disease annually. In HER2-positive breast cancer, increased quantities of the human epidermal growth factor receptor 2 (HER2) are present on the surface of the tumor cells. This is known as HER2 positivity and affects approximately 15% to 20% of women with breast cancer. HER2-positive cancer is a particularly aggressive form of breast cancer.

In December 2012, Roche submitted Line Extension Applications to the European Medicines Agency (EMA) for MabThera SC, Roche s subcutaneous (SC) formulation of MabThera® (rituximab) using Halozyme s recombinant human hyaluronidase (rHuPH20). In January 2014, the CHMP recommended that the European Commission approve MabThera SC for the treatment of patients with common forms of non-Hodgkin lymphoma (NHL). NHL is a type of cancer that affects lymphocytes (white blood cells). An estimated 66,000 new cases of NHL were diagnosed in the U.S. in 2009 with approximately 125,000 new cases reported worldwide. In December 2012, at the annual meeting of the American Society of Hematology, Roche presented positive data from the first stage of its two-stage Phase 3 clinical study investigating pharmacokinetics, efficacy and safety of MabThera SC. The primary endpoint in the first stage of the study was met, showing the MabThera SC injection resulted in non-inferior MabThera concentrations in the blood compared with IV-infused MabThera (MabThera IV).

Table of Contents

Baxter Gammagard Collaboration

GAMMAGARD LIQUID is a current Baxter product that is indicated for the treatment of primary immunodeficiency disorders associated with defects in the immune system. In September 2007, we and Baxter entered into an agreement under which Baxter obtained a worldwide, exclusive license to develop and commercialize product combinations of rHuPH20 with GAMMAGARD LIQUID (HyQvia) (the Gammagard Collaboration).

Baxter filed a BLA for HyQvia in the U.S. in the second quarter of 2011. On August 1, 2012, we announced that the FDA had issued a complete response letter (CRL) for Baxter s HyQvia BLA. The CRL requested additional preclinical data to support the BLA. The primary issues raised in the CRL focused on non-neutralizing antibodies generated against rHuPH20 and the possible effects of these antibodies on reproduction, development and fertility. Elevated anti-rHuPH20 antibody titers were detected in the registration trial, but have not been associated with any adverse events. Pending Baxter and us providing additional preclinical data sufficient to address the regulatory questions, the FDA has requested that patients should no longer be dosed with rHuPH20 in the Baxter HyQvia program. In December 2013, we and Baxter announced that Baxter has completed submission of the amended BLA to the FDA to initiate the review process for approval of HyQvia. Baxter submitted additional preclinical data that was requested from the FDA in 2012 and expects a six-month review.

In May 2013, the European Commission granted Baxter marketing authorization in all EU Member States for the use of HyQvia (solution for subcutaneous use) as replacement therapy for adult patients with primary and secondary immunodeficiencies. This therapy offers patients the option to administer their therapy at home, in a single subcutaneous site every three to four weeks. Baxter has launched HyQvia into the first EU country in July 2013 and a number of EU countries in the second half of 2013. Baxter plans to expand the launch to other EU markets in 2014.

Pfizer Collaboration

In December 2012, we and Pfizer entered into a collaboration and license agreement, under which Pfizer has the worldwide license to develop and commercialize products combining rHuPH20 enzyme with Pfizer proprietary biologics directed to up to six targets in primary care and specialty care indications (the Pfizer Collaboration). Targets may be selected on an exclusive or non-exclusive basis. In September 2013, Pfizer elected the fourth therapeutic target on an exclusive basis. In December Pfizer announced that one of the targets is PCSK9

ViroPharma Collaboration

In May 2011, we and ViroPharma entered into a collaboration and license agreement under which ViroPharma obtained a worldwide exclusive license for the use of rHuPH20 enzyme in the development and commercialization of a subcutaneous injectable formulation of ViroPharma s commercialized product, Cinryze (C1 esterase inhibitor [human]) (the ViroPharma Collaboration). In addition, the license provides ViroPharma with exclusivity to C1 esterase inhibitor and to hereditary angioedema, a rare, debilitating and potentially fatal genetic disease, along with three additional orphan indications.

In December 2012, ViroPharma initiated a Phase 2 double blind, multicenter, dose ranging study to evaluate the safety and efficacy of subcutaneous administration of Cinryze in combination with rHuPH20 in adolescents and adults with hereditary angioedema attacks. On August 1, 2013, ViroPharma announced that it was discontinuing the study following discussions with the Center for Biologics Evaluation and Research (CBER) division of the FDA as a precaution related to the emergence of an unexpected incidence and titer of non-neutralizing anti-rHuPH20 antibodies in a number of patients with the formulation being used in this study. These antibodies have not been associated with any adverse clinical effects.

Table of Contents

Intrexon Collaboration

In June 2011, we and Intrexon entered into a collaboration and license agreement under which Intrexon obtained a worldwide exclusive license for the use of rHuPH20 enzyme in the development and commercialization of a subcutaneous injectable formulation of Intrexon s recombinant human alpha 1-antitrypsin (rHuA1AT) (the Intrexon Collaboration). In addition, the license provides Intrexon with exclusivity for a defined indication.

For a further discussion of the material terms of our collaboration agreements, refer to Note 4 to our consolidated financial statements in our Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2013 incorporated by reference herein.

Recent Developments

Amendment to Certificate of Incorporation

In May 2013, our stockholders approved an amendment to our Certificate of Incorporation to increase our authorized number of shares of common stock from 150 million shares to 200 million shares.

Amended and Restated Loan and Security Agreement

On December 27, 2013, we entered into an Amended and Restated Loan and Security Agreement (the Loan Agreement) with Oxford Finance LLC, a Delaware limited liability company, and Silicon Valley Bank, a California corporation, amending and restating in its entirety the Loan and Security Agreement dated as of December 28, 2012 (the Original Loan Agreement). The Original Loan Agreement provided for a $30 million secured single-draw term loan facility with a maturity date of January 1, 2017. The original term loan was fully drawn at close. The Loan Agreement extends the original $30 million term loans and provides for an additional $20 million in new term loans, bringing the total term loan balance to $50 million. Upon closing of the Loan Agreement, we received approximately $19 million, net of accrued interest. The proceeds are to be used for working capital and general business requirements. The amended and restated term loan facility matures on January 1, 2018. The amended and restated term loan facility is secured by substantially all of our assets, except that the collateral does not include any equity interests in our subsidiary, Halozyme, Inc., any intellectual property (including all licensing, collaboration and similar agreements relating thereto), and certain other excluded assets. The amended and restated term loan repayment schedule provides for interest only payments for the first year, followed by consecutive equal monthly payments of principal and interest in arrears starting in February 2015 and continuing through the maturity date. The Loan Agreement provides for a 7.55% interest rate on the term loans and a final payment equal to 8.5% of the initial principal amount of the term loans, which is due when the term loans become due or upon the prepayment of the facility. Based upon preliminary estimates, as of December 31, 2013, we had approximately $71 million in cash and cash equivalents and marketable securities. This financial information is subject to completion of our year-end financial closing procedures, the preparation of our financial statements, and the completion of the audit of our financial statements as of and for the year ended December 31, 2013, and our actual results may differ from these estimates.

MabTheraSC Receives Positive CHMP Opinion

In January 2014, the CHMP recommended that the European Commission approve MabThera SC for the treatment of patients with common forms of non-Hodgkin lymphoma**.**

CONSISTENT 1 Clinical Trial Update

The time point for assessment of the primary endpoint for the CONSISTENT 1 clinical study evaluating the use of *Hylenex* recombinant in conjunction with rapid analog insulin in people with Type 1 diabetes using insulin

Table of Contents

pumps was recently changed from 4 months to 6 months based on feedback we received from the FDA. We plan to communicate top line results from the CONSISTENT 1 study in the first quarter of 2014.

Corporate Information

We reincorporated from the State of Nevada to the State of Delaware in November 2007. Our principal offices and research facilities are located at 11388 Sorrento Valley Road, San Diego, California 92121. Our telephone number is (858) 794-8889 and our e-mail address is info@halozyme.com. Additional information about us can be found on our website at www.halozyme.com. The information on our website is not part of this prospectus supplement.

Table of Contents

The Offering

Common stock offered by us in this offering	7,692,307 shares of our common stock
Option to purchase additional shares	We have granted the underwriters an option for a period of up to 30 days from the date of this prospectus supplement to purchase up to 1,153,846 additional shares of common stock at the public offering price less the underwriting discounts and commissions
Common stock to be outstanding immediately after this offering	121,679,046 shares (or 122,832,892 shares if the underwriters exercise in full their option to purchase additional shares)
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-12
Use of proceeds	We intend to use the net proceeds from this offering to fund research and development of proprietary programs, including the potential acceleration of the PEGPH20 program, and for other general corporate purposes. See Use of Proceeds on page S-30
NASDAQ Global Select Market symbol	HALO

The number of shares of common stock to be outstanding immediately after this offering as shown above is based on 113,986,739 shares of common stock outstanding as of September 30, 2013. This number of shares excludes, as of September 30, 2013:

- 7,178,512 shares of common stock issuable upon the exercise of outstanding stock options, having a weighted average exercise price of $6.92 per share;
- 746,636 shares of common stock issuable upon settlement of restricted stock units; and
- an aggregate of up to 7,010,395 shares of common stock reserved for future issuance under our equity incentive plans.

Unless otherwise indicated, all information in this prospectus supplement assumes:

- that the underwriters do not exercise their option to purchase up to 1,153,846 additional shares of our common stock; and
- no options or shares of common stock were issued after September 30, 2013, and no outstanding equity awards were exercised or vested after September 30, 2013.

Table of Contents

RISK FACTORS

An investment in our common stock involves a high degree of risk. Before deciding whether to invest in our common stock, you should consider carefully the risks described below, together with other information in this prospectus supplement, the accompanying prospectus, the information and documents incorporated by reference, and in any free writing prospectus that we have authorized for use in connection with this offering. If any of these risks actually occurs, our business, financial condition, results of operations or cash flow could be seriously harmed. This could cause the trading price of our common stock to decline, resulting in a loss of all or part of your investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also harm our business.

Risks Related to this Offering and Our Common Stock

Our stock price is subject to significant volatility.

We participate in a highly dynamic industry which often results in significant volatility in the market price of common stock irrespective of company performance. As a result, our high and low sales prices of our common stock during the twelve months ended January 31, 2014 were $18.18 and $5.03, respectively. We expect our stock price to continue to be subject to significant volatility and, in addition to the other risks and uncertainties described elsewhere in this prospectus supplement and all other risks and uncertainties that are either not known to us at this time or which we deem to be immaterial, any of the following factors may lead to a significant drop in our stock price:

- the presence of competitive products to those being developed by us;
- failure (actual or perceived) of our collaborators to devote attention or resources to the development or commercialization of product candidates licensed to such collaborator;
- a dispute regarding our failure, or the failure of one of our third party collaborators, to comply with the terms of a collaboration agreement;
- the termination, for any reason, of any of our collaboration agreements;
- the sale of common stock by any significant stockholder, including, but not limited to, direct or indirect sales by members of management or our Board of Directors;
- the resignation, or other departure, of members of management or our Board of Directors;
- general negative conditions in the healthcare industry;
- general negative conditions in the financial markets;
- the failure, for any reason, to obtain regulatory approval for any of our proprietary or collaboration product candidates;
- the failure, for any reason, to secure or defend our intellectual property position;

for those products that are not yet approved for commercial sale, the failure or delay of applicable regulatory bodies to approve such products;

identification of safety or patient tolerability issues;

failure of clinical trials to meet efficacy endpoints;

suspensions or delays in the conduct of clinical trials or securing of regulatory approvals;

adverse regulatory action with respect to our and our collaborators products and product candidates such as clinical holds, imposition of onerous requirements for approval or product recalls;

our failure, or the failure of our third party collaborators, to successfully commercialize products approved by applicable regulatory bodies such as the FDA;

Table of Contents

our failure, or the failure of our third party collaborators, to generate product revenues anticipated by investors;

problems with a bulk rHuPH20 contract manufacturer or a fill and finish manufacturer for any product or product candidate;

the sale of additional debt and/or equity securities by us;

our failure to obtain financing on acceptable terms; or

a restructuring of our operations.

Future transactions where we raise capital may negatively affect our stock price.

We are currently a Well-Known Seasoned Issuer and may file automatic shelf registration statements at any time with the SEC. In addition, we currently have the ability to offer and sell additional equity, debt securities and warrants to purchase such securities, either individually or in units, under an effective automatic shelf registration statement. Sales of substantial amounts of shares of our common stock or other securities under our shelf registration statements could lower the market price of our common stock and impair our ability to raise capital through the sale of equity securities. In the future, we may issue additional options, warrants or other derivative securities convertible into our common stock.

Trading in our stock has historically been limited, so investors may not be able to sell as much stock as they want to at prevailing market prices.

Our stock has historically traded at a low daily trading volume. If low trading volume continues, it may be difficult for stockholders to sell their shares in the public market at any given time at prevailing prices.

Our rights agreement and anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult.

We are party to a Rights Agreement designed to deter abusive takeover tactics and to encourage prospective acquirors to negotiate with our board of directors rather than attempt to acquire us in a manner or on terms that our board deems unacceptable, which could delay or discourage takeover attempts that stockholders may consider favorable.

In addition, anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult. First, our board of directors is classified into three classes of directors. Under Delaware law, directors of a corporation with a classified board may be removed only for cause unless the corporation s certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation, as amended, does not provide otherwise. In addition, our bylaws limit who may call special meetings of stockholders, permitting only stockholders holding at least 50% of our outstanding shares to call a special meeting of stockholders. Our amended and restated certificate of incorporation, as amended, does not include a provision for cumulative voting for directors. Under cumulative voting, a minority stockholder holding a sufficient percentage of a class of shares may be able to ensure the election of one or more directors. Finally, our bylaws establish procedures, including advance notice procedures, with regard to the nomination of candidates for election as directors and stockholder proposals.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors other than the candidates nominated by our board of directors.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders from consummating a merger with, or acquisition of, us.

These provisions may deter an acquisition of us that might otherwise be attractive to stockholders.

Table of Contents

Management will have broad discretion as to the use of the net proceeds from this offering, and we may not use the proceeds effectively.

Our management will have broad discretion as to the application of the net proceeds and could use them for purposes other than those contemplated at the time of this offering. Our stockholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. Moreover, our management may use the net proceeds for corporate purposes that may not increase our profitability or our market value.

Investors in this offering will pay a higher price than the book value of our common stock.

You will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering because the price per share being offered hereby is substantially higher than the book value per share of our common stock. Based on the public offering price of $13.00 per share in this offering, if you purchase shares in this offering, after giving effect to the sale of 7,692,307 shares in this offering, you will suffer immediate and substantial dilution of $12.26 per share in the net tangible book value of the common stock. See Dilution beginning on page S-31 of this prospectus supplement for a more detailed discussion of the dilution you will incur in this offering.

Risks Related to Our Business

We have generated only minimal revenue from product sales to date; we have a history of net losses and negative cash flow, and we may never achieve or maintain profitability.

Relative to expenses incurred in our operations, we have generated only minimal revenues from product sales, licensing fees, milestone payments, bulk rHuPH20 supply payments and research reimbursements to date and we may never generate sufficient revenues from future product sales, licensing fees and milestone payments to offset expenses. Even if we ultimately do achieve significant revenues from product sales, licensing fees, research reimbursements, bulk rHuPH20 supply payments and/or milestone payments, we expect to incur significant operating losses over the next few years. We have never been profitable, and we may never become profitable. Through September 30, 2013, we have incurred aggregate net losses of approximately $360.1 million.

If our product candidates do not receive and maintain regulatory approvals, or if approvals are not obtained in a timely manner, such failure or delay would substantially impair our ability to generate revenues.

Approval from the FDA or equivalent health authorities is necessary to manufacture and market pharmaceutical products in the United States and the other countries in which we anticipate doing business have similar requirements. The process for obtaining FDA and other regulatory approvals is extensive, time-consuming, risky and costly, and there is no guarantee that the FDA or other regulatory bodies will approve any applications that may be filed with respect to any of our product candidates, or that the timing of any such approval will be appropriate for the desired product launch schedule for a product candidate. We and our collaborators attempt to provide guidance as to the timing for the filing and acceptance of such regulatory approvals, but such filings and approvals may not occur when we or our collaborators expect or at all. The FDA or other foreign regulatory agency may refuse or delay approval of our product candidates for failure to collect sufficient clinical or animal safety data and require us or our collaborators to conduct additional clinical or animal safety studies which may cause lengthy delays and increased costs to our programs. For example, we announced on August 1, 2012 that the FDA had issued a CRL for Baxter s HyQvia BLA. The CRL requested additional preclinical data to support the BLA. The primary issues raised in the letter focused on non-neutralizing antibodies generated against rHuPH20 and the possible effects of these antibodies on reproduction, development and fertility. Elevated anti-rHuPH20 antibody titers were detected in the registration trial, but have not been associated with any adverse events. Pending Baxter and us providing additional preclinical data sufficient to address the regulatory questions, the FDA has requested that patients should no longer be dosed with rHuPH20 in the Baxter clinical studies. In view of the issues raised in the HyQvia CRL, we contacted the FDA regarding the

Table of Contents

impact on Hylenex recombinant. After reviewing the applicable data submitted by us, FDA confirmed that there was no need for actions against Hylenex recombinant or clinical programs under the Hylenex recombinant IND application(s). Subsequent to this, in August 2013, our collaborator ViroPharma announced that it was discontinuing its study of subcutaneous administration of Cinryze in combination with rHuPH20 in adolescents and adults with hereditary angioedema attacks, following discussion with FDA regarding the emergence of an unexpected incidence and titer of non-neutralizing anti-rHuPH20 antibodies in a number of patients with the formulation being used in this study. Although these antibodies have not been associated with any adverse clinical effects, we cannot assure you that they will not arise and have adverse impact on future development of rHuPH20 or future sales of Hylenex recombinant.

There can be no assurance that Baxter and we will be able to resolve the issues raised by the FDA in a timely manner which could result in a delay or failure to gain regulatory approval for the HyQvia product candidate. Furthermore, although we do not believe at this time that the issues raised by the FDA with respect to the HyQvia BLA or the ViroPharma Phase 2 study will have a significant impact on our proprietary and other collaboration product candidates, there can be no assurance that these concerns will not also be raised by the FDA or other health authorities in the future.

Only two of our collaboration product candidates has been approved for commercialization and two of our collaboration product candidates are currently in the regulatory approval process. Only one of our proprietary products has been approved for commercialization, and we have no proprietary product candidates currently in the regulatory approval process. We and our collaborators may not be successful in obtaining such approvals for any potential products in a timely manner, or at all. Refer to the risk factor titled Our proprietary and collaboration product candidates may not receive regulatory approvals or their development may be delayed for a variety of reasons, including unsuccessful clinical trials, regulatory requirements or safety concerns for additional information relating to the approval of product candidates.

Additionally, even with respect to products which have been approved for commercialization, in order to continue to manufacture and market pharmaceutical products, we or our collaborators must maintain our regulatory approvals. If we or any of our collaborators are unsuccessful in maintaining our regulatory approvals, our ability to generate revenues would be adversely affected.

Use of our product candidates or those of our collaborators could be associated with side effects or adverse events.

As with most pharmaceutical products, use of our product candidates or those of our collaborators could be associated with side effects or adverse events which can vary in severity (from minor reactions to death) and frequency (infrequent or prevalent). Side effects or adverse events associated with the use of our product candidates or those of our collaborators may be observed at anytime, including in clinical trials or when a product is commercialized, and any such side effects or adverse events may negatively affect our or our collaborators ability to obtain regulatory approval or market our product candidates. Side effects such as toxicity or other safety issues associated with the use of our product candidates or those of our collaborators could require us or our collaborators to perform additional studies or halt development or sale of these product candidates or expose us to product liability lawsuits which will harm our business. We or our collaborators may be required by regulatory agencies to conduct additional animal or human studies regarding the safety and efficacy of our pharmaceutical product candidates which we have not planned or anticipated. Furthermore, there can be no assurance that we or our collaborators will resolve any issues related to any product related adverse events to the satisfaction of the FDA or any regulatory agency in a timely manner or ever, which could harm our business, prospects and financial condition.

Table of Contents

If our contract manufacturers are unable to manufacture and supply to us bulk rHuPH20 in the quantity and quality required by us or our collaborators for use in our products and product candidates, our product development and commercialization efforts could be delayed or stopped and our collaborations could be damaged.

We have existing supply agreements with contract manufacturing organizations Avid and Cook to produce bulk rHuPH20. These manufacturers each produce bulk rHuPH20 under current cGMP for clinical uses. In addition, Avid currently produces bulk rHuPH20 for *Hylenex* recombinant. In addition to supply obligations, Avid and Cook will also provide support for the chemistry, manufacturing and controls sections for FDA and other regulatory filings. We rely on their ability to successfully manufacture these batches according to product specifications, and Cook has relatively limited experience manufacturing bulk rHuPH20. In addition, as a result of our contractual obligations to Roche, we have been required to significantly scale up our bulk rHuPH20 production at Cook during the last three years. If Cook is unable to obtain status as an approved manufacturing facility, or if either Avid or Cook: (i) is unable to retain status as an approved manufacturing facilities; (ii) is unable to otherwise successfully scale up bulk rHuPH20 production; or (iii) fails to manufacture and supply bulk rHuPH20 in the quantity and quality required by us or our collaborators for use in our proprietary and collaboration products and product candidates for any other reason, our business will be adversely affected. In addition, a significant change in such parties business or financial condition could adversely affect their abilities to fulfill their contractual obligations to us. We have not established, and may not be able to establish, favorable arrangements with additional bulk rHuPH20 manufacturers and suppliers of the ingredients necessary to manufacture bulk rHuPH20 should the existing manufacturers and suppliers become unavailable or in the event that our existing manufacturers and suppliers are unable to adequately perform their responsibilities. We have attempted to mitigate the impact of supply interruption through the establishment of excess bulk rHuPH20 inventory, but there can be no assurances that this safety stock will be maintained or that it will be sufficient to address any delays, interruptions or other problems experienced by Avid and/or Cook. Any delays, interruptions or other problems regarding the ability of Avid and/or Cook to bulk rHuPH20 on a timely basis could: (i) cause the delay of clinical trials or otherwise delay or prevent the regulatory approval of proprietary or collaboration product candidates; (ii) delay or prevent the effective commercialization of proprietary or collaboration products; and/or (iii) cause us to breach contractual obligations to deliver bulk rHuPH20 to our collaborators. Such delays would likely damage our relationship with our collaborators under our key collaboration agreements, and they would have a material adverse effect on our business and financial condition.

If any party to a key collaboration agreement, including us, fails to perform material obligations under such agreement, or if a key collaboration agreement, or any other collaboration agreement, is terminated for any reason, our business could significantly suffer.

We have entered into multiple collaboration agreements under which we may receive significant future payments in the form of milestone payments, target designation fees, maintenance fees and royalties. We are dependent on our collaborators to develop and commercialize product candidates subject to our collaborations in order for us to realize any financial benefits from these collaborations. Our collaborators may not devote the attention and resources to such efforts that we would to such efforts ourselves or simultaneously develop and commercialize products in competition to those products we have licensed to them. In addition, in the event that a party fails to perform under a key collaboration agreement, or if a key collaboration agreement is terminated, the reduction in anticipated revenues could delay or suspend our product development activities for some of our product candidates, as well as our commercialization efforts for some or all of our products. Specifically, the termination of a key collaboration agreement by one of our collaborators could materially impact our ability to enter into additional collaboration agreements with new collaborators on favorable terms, if at all. In certain circumstances, the termination of a key collaboration agreement would require us to revise our corporate strategy going forward and reevaluate the applications and value of our technology.

Table of Contents

Most of our current proprietary and collaboration products and product candidates rely on the rHuPH20 enzyme, and any adverse development regarding rHuPH20 could substantially impact multiple areas of our business, including current and potential collaborations, as well as proprietary programs.

rHuPH20 is a key technological component of Enhanze technology and our most advanced proprietary and collaboration products and product candidates, including the product candidates under our Roche, Pfizer, Baxter, ViroPharma and Intrexon collaborations, our more physiologic insulin program, our PEGPH20 program and Hylenex recombinant. An adverse development for rHuPH20 (e.g., an adverse regulatory determination relating to rHuPH20, if we are unable to obtain sufficient quantities of rHuPH20, if we are unable to obtain or maintain material proprietary rights to rHuPH20 or if we discover negative characteristics of rHuPH20) would substantially impact multiple areas of our business, including current and potential collaborations, as well as proprietary programs. For example, elevated anti-rHuPH20 antibody titers have been detected in the registration trial for Baxter s HyQvia product candidate as well as in ViroPharma s Phase 2 clinical trial with subcutaneous Cinryze with rHuPH20, but have not been associated, in either case, with any adverse events. Baxter has submitted preclinical data to the FDA regarding the antibodies in its BLA resubmission in response to the CRL Letter received for the HyQvia BLA and is awaiting response from the FDA. ViroPharma has chosen to discontinue the Phase 2 clinical trial with subcutaneous Cinryze with rHuPH20 due to the unexpected incidence and titer of antibodies in a number of patients with the formulation being used in this study. We monitor for antibodies to rHuPH20 in our collaboration and proprietary programs, and although we do not believe at this time that the incidence of non-neutralizing anti-rHuPH20 antibodies in either the HyQvia program or the ViroPharma program will have a significant impact on our other proprietary and other collaboration product candidates, there can be no assurance that there will not be other such occurrences in our other programs or that concerns regarding these antibodies will not also be raised by the FDA or other health authorities in the future, which could result in delays or discontinuations of our development or commercialization activities or deter entry into additional collaborations with third parties.

Our proprietary and collaboration product candidates may not receive regulatory approvals or their development may be delayed for a variety of reasons, including unsuccessful clinical trials, regulatory requirements or safety concerns.

Clinical testing of pharmaceutical products is a long, expensive and uncertain process, and the failure or delay of a clinical trial can occur at any stage. Even if initial results of preclinical and nonclinical studies or clinical trial results are promising, we or our collaborators may obtain different results in subsequent trials or studies that fail to show the desired levels of safety and efficacy, or we may not, or our collaborators may not, obtain applicable regulatory approval for a variety of other reasons. Preclinical, nonclinical, and clinical trials for any of our proprietary or collaboration product candidates could be unsuccessful, which would delay or prohibit regulatory approval and commercialization of the product candidates. In the United States and other jurisdictions, regulatory approval can be delayed, limited or not granted for many reasons, including, among others:

- clinical results may not meet prescribed endpoints for the studies or otherwise provide sufficient data to support the efficacy of our product candidates;
- clinical and nonclinical test results may reveal side effects, adverse events or unexpected safety issues associated with the use of our product candidates;
- regulatory review may not find a product candidate safe or effective enough to merit either continued testing or final approval;
- regulatory review may not find that the data from preclinical testing and clinical trials justifies approval;
- regulatory authorities may require that we change our studies or conduct additional studies which may significantly delay or make continued pursuit of approval commercially unattractive; for example, based on FDA feedback, we recently changed the time point for assessment of the primary endpoint of non-inferiority of A1C from four months to six months in our CONSISTENT 1 trial for Hylenex recombinant for use in CSII;

Table of Contents

a regulatory agency may reject our trial data or disagree with our interpretations of either clinical trial data or applicable regulations;

the cost of clinical trials required for product approval may be greater than what we originally anticipate, and we may decide to not pursue regulatory approval for such a product;

a regulatory agency may not approve our manufacturing processes or facilities, or the processes or facilities of our collaborators, our contract manufacturers or our raw material suppliers;

a regulatory agency may identify problems or other deficiencies in our existing manufacturing processes or facilities, or the existing processes or facilities of our collaborators, our contract manufacturers or our raw material suppliers;

a regulatory agency may change its formal or informal approval requirements and policies, act contrary to previous guidance, adopt new regulations or raise new issues or concerns late in the approval process; or

a product candidate may be approved only for indications that are narrow or under conditions that place the product at a competitive disadvantage, which may limit the sales and marketing activities for such product candidate or otherwise adversely impact the commercial potential of a product.

If a proprietary or collaboration product candidate is not approved in a timely fashion on commercially viable terms, or if development of any product candidate is terminated due to difficulties or delays encountered in the regulatory approval process, it could have a material adverse impact on our business, and we will become more dependent on the development of other proprietary or collaboration product candidates and/or our ability to successfully acquire other products and technologies. There can be no assurances that any proprietary or collaboration product candidate will receive regulatory approval in a timely manner, or at all. For example, we are currently in dialog with the FDA regarding the path for a labeling update to include key efficacy and safety data prior to initiating *Hylenex* recombinant for use in CSII. There can be no assurance that we will be able to gain clarity as to the FDA s requirements or that the requirements may be satisfied by us in a commercially feasible way. If we are not successful in updating data into the Hylenex recombinant labeling, our ability to promote this use will be limited and may adversely impact our projected market for the CSII use.

We anticipate that certain proprietary and collaboration products will be marketed, and perhaps manufactured, in foreign countries. The process of obtaining regulatory approvals in foreign countries is subject to delay and failure for the reasons set forth above, as well as for reasons that vary from jurisdiction to jurisdiction. The approval process varies among countries and jurisdictions and can involve additional testing. The time required to obtain approval may differ from that required to obtain FDA approval. Foreign regulatory agencies may not provide approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or jurisdictions or by the FDA.

Our third party collaborators are responsible for providing certain proprietary materials that are essential components of our collaboration product candidates, and any failure to supply these materials could delay the development and commercialization efforts for these collaboration product candidates and/or damage our collaborations.

Our development and commercialization collaborators are responsible for providing certain proprietary materials that are essential components of our collaboration product candidates. For example, Roche is responsible for producing the Herceptin and MabThera required for its subcutaneous product candidates and Baxter is responsible for producing the GAMMAGARD LIQUID for its product candidate HyQvia. If a collaborator, or any applicable third party service provider of a collaborator, encounters difficulties in the manufacture, storage, delivery, fill, finish or packaging of the collaboration product candidate or component of such product candidate, such difficulties could (i) cause the delay of clinical trials or otherwise delay or prevent the regulatory approval of collaboration product candidates; and/or (ii) delay or prevent the effective

Table of Contents

commercialization of collaboration products. Such delays could have a material adverse effect on our business and financial condition. For example, Baxter received a Warning Letter from the FDA in January 2010 regarding Baxter s GAMMAGARD LIQUID manufacturing facility in Lessines, Belgium. The FDA indicated in March 2010 that the issues raised in the Warning Letter had been addressed by Baxter, and we do not expect these issues to impact the development of the HyQvia product candidate.

We rely on third parties to prepare, fill, finish and package our products and product candidates, and if such third parties should fail to perform, our commercialization and development efforts for our products and product candidates could be delayed or stopped.

We rely on third parties to store and ship bulk rHuPH20 on our behalf and to also prepare, fill, finish and package our products and product candidates prior to their distribution. If we are unable to locate third parties to perform these functions on terms that are acceptable to us, or if the third parties we identify fail to perform their obligations, the progress of clinical trials could be delayed or even suspended and the commercialization of approved product candidates could be delayed or prevented. For example, *Hylenex* recombinant was voluntarily recalled in May 2010 because a portion of the *Hylenex* recombinant manufactured by Baxter was not in compliance with the requirements of the underlying *Hylenex* recombinant agreements. During the second quarter of 2011, we submitted the data that the FDA had requested to support the reintroduction of *Hylenex* recombinant. The FDA approved the submitted data and granted the reintroduction of *Hylenex* recombinant, and we reintroduced *Hylenex* recombinant to the market in December 2011. In June 2011, we entered into a commercial manufacturing and supply agreement with Baxter, under which Baxter will fill, finish and package *Hylenex* recombinant product for us. Under our commercial manufacturing and supply agreement with Baxter, Baxter has agreed to fill and finish *Hylenex* recombinant product for us for a limited period of time. The term of the commercial manufacturing and supply agreement with Baxter expires on December 31, 2015, subject to further extensions in accordance with the terms and conditions of the agreement. In June 2011, we entered into a services agreement with a third party manufacturer for the technology transfer and manufacture of *Hylenex* recombinant. If we are unable to receive regulatory approval for the third party manufacturer prior to the expiration of the commercial manufacturing and supply agreement with Baxter or if the new manufacturer encounters difficulties in the manufacture, fill, finish or packaging of *Hylenex* recombinant, our business and financial condition could be adversely effected.

If we are unable to sufficiently develop our sales, marketing and distribution capabilities or enter into successful agreements with third parties to perform these functions, we will not be able to fully commercialize our products.

We may not be successful in marketing and promoting our approved product, *Hylenex* recombinant or any other products we develop or acquire in the future. Our sales, marketing and distribution capabilities are very limited. In order to commercialize any products successfully, we must internally develop substantial sales, marketing and distribution capabilities or establish collaborations or other arrangements with third parties to perform these services. We do not have extensive experience in these areas, and we may not be able to establish adequate in-house sales, marketing and distribution capabilities or engage and effectively manage relationships with third parties to perform any or all of such services. To the extent that we enter into co-promotion or other licensing arrangements, our product revenues are likely to be lower than if we directly marketed and sold our products, and any revenues we receive will depend upon the efforts of third parties, whose efforts may not meet our expectations or be successful. These third parties would be largely responsible for the speed and scope of sales and marketing efforts, and may not dedicate the resources necessary to maximize product opportunities. Our ability to cause these third parties to increase the speed and scope of their efforts may also be limited. In addition, sales and marketing efforts could be negatively impacted by the delay or failure to obtain additional supportive clinical trial data for our products. In some cases, third party collaborators are responsible for conducting these additional clinical trials, and our ability to increase the efforts and resources allocated to these trials may be limited. For example, in January 2011, we and Baxter mutually agreed to terminate the *Hylenex* Collaboration and the associated agreements.

Table of Contents

If we or our collaborators fail to comply with regulatory requirements applicable to promotion, sale and manufacturing of approved products, regulatory agencies may take action against us or them, which could significantly harm our business.

Any approved products, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for these products, are subject to continual requirements and review by the FDA, state and foreign regulatory bodies. Regulatory authorities subject a marketed product, its manufacturer and the manufacturing facilities to continual review and periodic inspections. We, our collaborators and our respective contractors, suppliers and vendors, will be subject to ongoing regulatory requirements, including complying with regulations and laws regarding advertising, promotion and sales of drug products, required submissions of safety and other post-market information and reports, registration requirements, cGMP regulations (including requirements relating to quality control and quality assurance, as well as the corresponding maintenance of records and documentation), and the requirements regarding the distribution of samples to physicians and recordkeeping requirements. Regulatory agencies may change existing requirements or adopt new requirements or policies. We, our collaborators and our respective contractors, suppliers and vendors, may be slow to adapt or may not be able to adapt to these changes or new requirements.

In particular, regulatory requirements applicable to pharmaceutical products make the substitution of suppliers and manufacturers costly and time consuming. We have minimal internal manufacturing capabilities and are, and expect to be in the future, entirely dependent on contract manufacturers and suppliers for the manufacture of our products and for their active and other ingredients. The disqualification of these manufacturers and suppliers through their failure to comply with regulatory requirements could negatively impact our business because the delays and costs in obtaining and qualifying alternate suppliers (if such alternative suppliers are available, which we cannot assure) could delay clinical trials or otherwise inhibit our ability to bring approved products to market, which would have a material adverse effect on our business and financial condition. Likewise, if we, our collaborators and our respective contractors, suppliers and vendors involved in sales and promotion of our products do not comply with applicable laws and regulations, for example off-label or false or misleading promotion, this could materially harm our business and financial condition.

Failure to comply with regulatory requirements, may result in any of the following:

- restrictions on our products or manufacturing processes;
- warning letters;
- withdrawal of the products from the market;
- voluntary or mandatory recall;
- fines;
- suspension or withdrawal of regulatory approvals;
- suspension or termination of any of our ongoing clinical trials;
- refusal to permit the import or export of our products;
- refusal to approve pending applications or supplements to approved applications that we submit;

product seizure;

injunctions; or

the imposition of civil or criminal penalties.

We may wish to raise additional capital in the next twelve months and there can be no assurance that we will be able to obtain such funds.

During the next twelve months, we may wish to raise additional capital to continue the development of our product candidates or for other current corporate purposes. Our current cash reserves and expected revenues

Table of Contents

during the next few years may not be sufficient for us to continue the development of our proprietary product candidates, to fund general operations and conduct our business at the level desired. In addition, if we engage in acquisitions of companies, products or technologies in order to execute our business strategy, we may need to raise additional capital. We may raise additional capital in the future through one or more financing vehicles that may be available to us including (i) the public or private issuance of securities; (ii) new collaborative agreements; and/or (iii) expansions or revisions to existing collaborative relationships.

In view of our stage of development, business prospects, the nature of our capital structure and general market conditions, if we are required to raise additional capital in the future, the additional financing may not be available on favorable terms, or at all. If additional capital is not available on favorable terms when needed, we will be required to raise capital on adverse terms or significantly reduce operating expenses through the restructuring of our operations. If we raise additional capital, a substantial number of additional shares may be issued, and these shares will dilute the ownership interest of our current investors.

We currently have significant debt and failure by us to fulfill our obligations under the applicable loan agreements may cause the repayment obligations to accelerate.

On December 27, 2013 we entered into an Amended and Restated Loan and Security Agreement (the Loan Agreement) with Oxford Finance LLC, a Delaware limited liability company, and Silicon Valley Bank, a California corporation, amending and restating in its entirety the Loan and Security Agreement dated as of December 28, 2012 (the Original Loan Agreement). The Original Loan Agreement provided for a $30 million secured single-draw term loan facility with a maturity date of January 1, 2017. The original term loan was fully drawn at close. The Loan Agreement extends the original $30 million term loans and provides for an additional $20 million in new term loans, bringing the total term loan balance to $50 million. The amended and restated term loan facility matures on January 1, 2018. The amended and restated term loan facility is secured by substantially all of the assets of the Company and Halozyme, Inc., except that the collateral does not include any equity interests in Halozyme, Inc., any intellectual property (including all licensing, collaboration and similar agreements relating thereto), and certain other excluded assets. The Loan Agreement contains customary representations, warranties and covenants by us, as well as customary events of default and our indemnification obligations. One of the events of default is a material adverse change which is defined as a material adverse change in our business, operations or condition (financial or otherwise); a material impairment of the prospect of repayment of any portion of the loan; or a material impairment in the perfection or priority of lender s lien in the collateral or in the value of such collateral. If we are unable to fulfill our obligations to the lenders under the applicable loan agreements, this could create a material default such that our obligation to repay the loan is accelerated which could harm our financial condition.

If proprietary or collaboration product candidates are approved for marketing but do not gain market acceptance, our business may suffer and we may not be able to fund future operations.

Assuming that our proprietary or collaboration product candidates obtain the necessary regulatory approvals for commercial sale, a number of factors may affect the market acceptance of these existing product candidates or any other products which are developed or acquired in the future, including, among others:

- the price of products relative to other therapies for the same or similar treatments;
- the perception by patients, physicians and other members of the health care community of the effectiveness and safety of these products for their prescribed treatments relative to other therapies for the same or similar treatments;
- our ability to fund our sales and marketing efforts and the ability and willingness of our collaborators to fund sales and marketing efforts;
- the degree to which the use of these products is restricted by the approved product label;
- the effectiveness of our sales and marketing efforts and the effectiveness of the sales and marketing efforts of our collaborators;

Table of Contents

the introduction of generic competitors; and

the extent to which reimbursement for our products and related treatments will be available from third party payors including government insurance programs (Medicare and Medicaid) and private insurers.

If these products do not gain market acceptance, we may not be able to fund future operations, including the development or acquisition of new product candidates and/or our sales and marketing efforts for our approved products, which would cause our business to suffer.

In addition, our proprietary and collaboration product candidates will be restricted to the labels approved by FDA and applicable regulatory bodies, and these restrictions may limit the marketing and promotion of the ultimate products. If the approved labels are restrictive, the sales and marketing efforts for these products may be negatively affected.

Developing and marketing pharmaceutical products for human use involves significant product liability risks for which we currently have limited insurance coverage.

The testing, marketing and sale of pharmaceutical products involves the risk of product liability claims by consumers and other third parties. Although we maintain product liability insurance coverage, product liability claims can be high in the pharmaceutical industry, and our insurance may not sufficiently cover our actual liabilities. If product liability claims were to be made against us, it is possible that the liabilities may exceed the limits of our insurance policy, or our insurance carriers may deny, or attempt to deny, coverage in certain instances. If a lawsuit against us is successful, then the lack or insufficiency of insurance coverage could materially and adversely affect our business and financial condition. Furthermore, various distributors of pharmaceutical products require minimum product liability insurance coverage before purchase or acceptance of products for distribution. Failure to satisfy these insurance requirements could impede our ability to achieve broad distribution of our proposed products, and higher insurance requirements could impose additional costs on us. In addition, since many of our collaboration product candidates include the pharmaceutical products of a third party, we run the risk that problems with the third party pharmaceutical product will give rise to liability claims against us.

Our inability to attract, hire and retain key management and scientific personnel could negatively affect our business.

Our success depends on the performance of key management and scientific employees with relevant experience. We depend substantially on our ability to hire, train, motivate and retain high quality personnel, especially our scientists and management team. Particularly in view of the small number of employees on our staff to cover our numerous programs and key functions, if we are unable to retain existing personnel or identify or hire additional personnel, we may not be able to research, develop, commercialize or market our products and product candidates as expected or on a timely basis and we may not be able to adequately support current and future alliances with strategic collaborators.

Furthermore, if we were to lose key management personnel, we would likely lose some portion of our institutional knowledge and technical know-how, potentially causing a substantial delay in one or more of our development programs until adequate replacement personnel could be hired and trained. We currently have a severance policy applicable to all employees and a change in control policy applicable to senior executives. We have not adopted any other policies or entered into any other agreements specifically designed to motivate officers or other employees to remain with us.

We do not have key man life insurance policies on the lives of any of our employees.

Our operations might be interrupted by the occurrence of a natural disaster or other catastrophic event.

Our operations, including laboratories, offices and other research facilities, are located in three buildings in San Diego, California. We depend on our facilities and on our collaborators, contractors and vendors for the

Table of Contents

continued operation of our business. Natural disasters or other catastrophic events, interruptions in the supply of natural resources, political and governmental changes, wildfires and other fires, floods, explosions, actions of animal rights activists, earthquakes and civil unrest could disrupt our operations or those of our collaborators, contractors and vendors. Even though we believe we carry commercially reasonable business interruption and liability insurance, and our contractors may carry liability insurance that protect us in certain events, we may suffer losses as a result of business interruptions that exceed the coverage available under our and our contractors insurance policies or for which we or our contractors do not have coverage. Any natural disaster or catastrophic event could have a significant negative impact on our operations and financial results. Moreover, any such event could delay our research and development programs.

If we or our collaborators do not achieve projected development, clinical or regulatory goals in the timeframes we publicly announce or otherwise expect, the commercialization of our products and the development of our product candidates may be delayed and, as a result, our stock price may decline, and we may face lawsuits relating to such declines.

From time to time, we or our collaborators may publicly articulate the estimated timing for the accomplishment of certain scientific, clinical, regulatory and other product development goals. The accomplishment of any goal is typically based on numerous assumptions, and the achievement of a particular goal may be delayed for any number of reasons both within and outside of our control. If scientific, regulatory, strategic or other factors cause us to not meet a goal, regardless of whether that goal has been publicly articulated or not, our stock price may decline rapidly. For example, the announcement of the CRL received for HyQvia caused a rapid decline in our stock price. Stock price declines may also trigger direct or derivative shareholder lawsuits. As with any litigation proceeding, the eventual outcome of any legal action is difficult to predict. If any such lawsuits occur, we will incur expenses in connection with the defense of these lawsuits, and we may have to pay substantial damages or settlement costs in connection with any resolution thereof. Although we have insurance coverage against which we may claim recovery against some of these expenses and costs, the amount of coverage may not be adequate to cover the full amount or certain expenses and costs may be outside the scope of the policies we maintain. In the event of an adverse outcome or outcomes, our business could be materially harmed from depletion of cash resources, negative impact on our reputation, or restrictions or changes to our governance or other processes that may result from any final disposition of the lawsuit. Moreover, responding to and defending pending litigation significantly diverts management s attention from our operations.

In addition, the consistent failure to meet publicly announced milestones may erode the credibility of our management team with respect to future milestone estimates.

Future acquisitions could disrupt our business and harm our financial condition.

In order to augment our product pipeline or otherwise strengthen our business, we may decide to acquire additional businesses, products and technologies. As we have limited experience in evaluating and completing acquisitions, our ability as an organization to make such acquisitions is unproven. Acquisitions could require significant capital infusions and could involve many risks, including, but not limited to, the following:

- we may have to issue convertible debt or equity securities to complete an acquisition, which would dilute our stockholders and could adversely affect the market price of our common stock;
- an acquisition may negatively impact our results of operations because it may require us to amortize or write down amounts related to goodwill and other intangible assets, or incur or assume substantial debt or liabilities, or it may cause adverse tax consequences, substantial depreciation or deferred compensation charges;
- we may encounter difficulties in assimilating and integrating the business, products, technologies, personnel or operations of companies that we acquire;
- certain acquisitions may impact our relationship with existing or potential collaborators who are competitive with the acquired business, products or technologies;

Table of Contents

acquisitions may require significant capital infusions and the acquired businesses, products or technologies may not generate sufficient value to justify acquisition costs;

we may take on liabilities from the acquired company such as debt, legal liabilities or business risk which could be significant;

an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;

acquisitions may involve the entry into a geographic or business market in which we have little or no prior experience; and

key personnel of an acquired company may decide not to work for us.

If any of these risks occurred, it could adversely affect our business, financial condition and operating results. There is no assurance that we will be able to identify or consummate any future acquisitions on acceptable terms, or at all. If we do pursue any acquisitions, it is possible that we may not realize the anticipated benefits from such acquisitions or that the market will not view such acquisitions positively.

Security breaches may disrupt our operations and harm our operating results.

The wrongful use, theft, deliberate sabotage or any other type of security breach with respect to any of our information technology storage and access systems could result in disclosure or dissemination of our proprietary and confidential information that is electronically stored, including research or clinical data, resulting in a material adverse impact on our business, operating results and financial condition. Our security and data recovery measures may not be adequate to protect against computer viruses, break-ins, and similar disruptions from unauthorized tampering with our electronic storage systems. Furthermore, any physical break-in or trespass of our facilities could result in the misappropriation, theft, sabotage or any other type of security breach with respect to our proprietary and confidential information, including research or clinical data or damage to our research and development equipment and assets. Such adverse effects could be material and irrevocable to our business, operating results and financial condition.

Risks Related to Our Industry

Our products must receive regulatory approval before they can be sold, and compliance with the extensive government regulations is expensive and time consuming and may result in the delay or cancellation of product sales, introductions or modifications.

Extensive industry regulation has had, and will continue to have, a significant impact on our business. All pharmaceutical companies, including ours, are subject to extensive, complex, costly and evolving regulation by the health regulatory agencies including the FDA (and with respect to controlled drug substances, the U.S. Drug Enforcement Administration (DEA)) and equivalent foreign regulatory agencies and state and local/regional government agencies. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other domestic and foreign statutes and regulations govern or influence the testing, manufacturing, packaging, labeling, storing, recordkeeping, safety, approval, advertising, promotion, sale and distribution of our products. We are dependent on receiving FDA and other governmental approvals prior to manufacturing, marketing and shipping our products. Consequently, there is always a risk that the FDA or other applicable governmental authorities will not approve our products or may impose onerous, costly and time-consuming requirements such as additional clinical or animal testing. Regulatory authorities may require that we change our studies or conduct additional studies, which may significantly delay or make continued pursuit of approval commercially unattractive; for example, based on FDA feedback, we recently changed the time point for assessment of the primary endpoint of non-inferiority of A1C from four months to six months in our CONSISTENT 1 trial for *Hylenex* recombinant for use in CSII. We are currently in dialog with the FDA regarding the path for a labeling update to include key efficacy and safety data prior to initiating *Hylenex* recombinant for use in CSII. There can be no assurance that we will be able to gain clarity as to the FDA s requirements or that the requirements may be satisfied by us in a

Table of Contents

commercially feasible way. The FDA or other foreign regulatory agency may, at any time, halt our and our collaborators development and commercialization activities due to safety concerns. In addition, even if our products are approved, regulatory agencies may also take post-approval action limiting or revoking our ability to sell our products. Any of these regulatory actions may adversely affect the economic benefit we may derive from our products and therefore harm our financial condition.

Under certain of these regulations, we and our contract suppliers and manufacturers are subject to periodic inspection of our or their respective facilities, procedures and operations and/or the testing of products by the FDA, the DEA and other authorities, which conduct periodic inspections to confirm that we and our contract suppliers and manufacturers are in compliance with all applicable regulations. The FDA also conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems, or our contract suppliers and manufacturers processes, are in compliance with cGMP and other FDA regulations. If we, or our contract supplier, fail these inspections, we may not be able to commercialize our product in a timely manner without incurring significant additional costs, or at all.

In addition, the FDA imposes a number of complex regulatory requirements on entities that advertise and promote pharmaceuticals including, but not limited to, standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities, and promotional activities involving the internet.

We may be subject, directly or indirectly, to various broad federal and state healthcare laws. If we are unable to comply, or have not fully complied, with such laws, we could face civil, criminal and administrative penalties, damages, monetary fines, disgorgement, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings and curtailment or restructuring of our operations, any of which could adversely affect our ability to operate.

Our business operations and activities may be directly, or indirectly, subject to various broad federal and state healthcare laws, including without limitation, anti-kickback laws, false claims laws, civil monetary penalty laws, data privacy and security laws, tracing and tracking laws, as well as transparency laws regarding payments or other items of value provided to healthcare providers. These laws may restrict or prohibit a wide range of business activities, including, but not limited to, research, manufacturing, distribution, pricing, discounting, marketing and promotion and other business arrangements. These laws may impact, among other things, our current activities with principal investigators and research subjects, as well as sales, marketing and education programs. Many states have similar healthcare fraud and abuse laws, some of which may be broader in scope and may not be limited to items or services for which payment is made by a government health care program.

Efforts to ensure that our business arrangements will comply with applicable healthcare laws may involve substantial costs. While we have adopted a healthcare corporate compliance program, it is possible that governmental and enforcement authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law interpreting applicable fraud and abuse or other healthcare laws. If our operations or activities are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to, without limitation, civil, criminal and administrative penalties, damages, monetary fines, disgorgement, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings and curtailment or restructuring of our operations, any of which could adversely affect our ability to operate.

In addition, any sales of products outside the United States will also likely subject us to foreign equivalents of the healthcare laws mentioned above, among other foreign laws.

Table of Contents

We may be required to initiate or defend against legal proceedings related to intellectual property rights, which may result in substantial expense, delay and/or cessation of the development and commercialization of our products.

We primarily rely on patents to protect our intellectual property rights. The strength of this protection, however, is uncertain. For example, it is not certain that:

- we will be able to obtain patent protection for our products and technologies;
- the scope of any of our issued patents will be sufficient to provide commercially significant exclusivity for our products and technologies;
- others will not independently develop similar or alternative technologies or duplicate our technologies and obtain patent protection before we do; and
- any of our issued patents, or patent pending applications that result in issued patents, will be held valid, enforceable and infringed in the event the patents are asserted against others.

We currently own or license several patents and also have pending patent applications applicable to rHuPH20 and other proprietary materials. There can be no assurance that our existing patents, or any patents issued to us as a result of our pending patent applications, will provide a basis for commercially viable products, will provide us with any competitive advantages, or will not face third party challenges or be the subject of further proceedings limiting their scope or enforceability. A European patent, EP1603541, claiming rHuPH20 was granted to us on November 11, 2009 with claims to the human PH20 glycoprotein, PEGylated variants, a method of producing the glycoprotein produced by recombinant methods, and pharmaceutical compositions with other agents, including antibodies, insulins, cytokines, a chemotherapeutic agent and additional therapeutic classes. A third party opposed this patent in the European Patent Office in 2010; however, the opposition has been resolved with claims maintained in amended form. Any weaknesses or limitations in our patent portfolio could have a material adverse effect on our business and financial condition. In addition, if any of our pending patent applications do not result in issued patents, or result in issued patents with narrow or limited claims, this could result in us having no or limited protection against generic or biosimilar competition against our product candidates which would have a material adverse effect on our business and financial condition.

We may become involved in interference proceedings in the U.S. Patent and Trademark Office, or other proceedings in other jurisdictions, to determine the priority, validity or enforceability of our patents. In addition, costly litigation could be necessary to protect our patent position.

We also rely on trademarks to protect the names of our products (e.g. *Hylenex* recombinant). We may not be able to obtain trademark protection for any proposed product names we select. In addition, product names for pharmaceutical products must be approved by health regulatory authorities such as the FDA in addition to meeting the legal standards required for trademark protection and product names we propose may not be timely approved by regulatory agencies which may delay product launch. In addition, our trademarks may be challenged by others. If we enforce our trademarks against third parties, such enforcement proceedings may be expensive.

We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect with confidentiality agreements with employees, consultants and others with whom we discuss our business. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of these agreements, and we might not be able to resolve these disputes in our favor.

In addition to protecting our own intellectual property rights, third parties may assert patent, trademark or copyright infringement or other intellectual property claims against us. If we become involved in any intellectual property litigation, we may be required to pay substantial damages, including but not limited to treble damages, attorneys fees and costs, for past infringement if it is ultimately determined that our products infringe a third party s intellectual property rights. Even if infringement claims against us are without merit, defending a lawsuit takes significant time, may be expensive and may divert management s attention from other business concerns. Further, we may be stopped from developing, manufacturing or selling our products until we obtain a license from the owner of the relevant technology or other intellectual property rights. If such a license is available at all, it may require us to pay substantial royalties or other fees.

Table of Contents

Patent protection for protein-based therapeutic products and other biotechnology inventions is subject to a great deal of uncertainty, and if patent laws or the interpretation of patent laws changes, our competitors may be able to develop and commercialize products based on our discoveries.

Patent protection for protein-based therapeutic products is highly uncertain and involves complex legal and factual questions. In recent years, there have been significant changes in patent law, including the legal standards that govern the scope of protein and biotechnology patents. Standards for patentability of full-length and partial genes, and their corresponding proteins, are changing. Recent court decisions have made it more difficult to obtain patents, by making it more difficult to satisfy the patentable subject matter requirement and the requirement of non-obviousness, have decreased the availability of injunctions against infringers, and have increased the likelihood of challenging the validity of a patent through a declaratory judgment action. Taken together, these decisions could make it more difficult and costly for us to obtain, license and enforce our patents. In addition, the Leahy-Smith America Invents Act (HR 1249) was signed into law in September 2011, which among other changes to the U.S. patent laws, changes patent priority from first to invent to first to file, implements a post-grant opposition system for patents and provides for a prior user defense to infringement. These judicial and legislative changes have introduced significant uncertainty in the patent law landscape and may potentially negatively impact our ability to procure, maintain and enforce patents to provide exclusivity for our products.

There also have been, and continue to be, policy discussions concerning the scope of patent protection awarded to biotechnology inventions. Social and political opposition to biotechnology patents may lead to narrower patent protection within the biotechnology industry. Social and political opposition to patents on genes and proteins and recent court decisions concerning patentability of isolated genes may lead to narrower patent protection, or narrower claim interpretation, for isolated genes, their corresponding proteins and inventions related to their use, formulation and manufacture. Patent protection relating to biotechnology products is also subject to a great deal of uncertainty outside the United States, and patent laws are evolving and undergoing revision in many countries. Changes in, or different interpretations of, patent laws worldwide may result in our inability to obtain or enforce patents, and may allow others to use our discoveries to develop and commercialize competitive products, which would impair our business.

If third party reimbursement and customer contracts are not available, our products may not be accepted in the market.

Our ability to earn sufficient returns on our products will depend in part on the extent to which reimbursement for our products and related treatments will be available from government health administration authorities, private health insurers, managed care organizations and other healthcare providers.

Third-party payors are increasingly attempting to limit both the coverage and the level of reimbursement of new drug products to contain costs. Consequently, significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Third party payors may not establish adequate levels of reimbursement for the products that we commercialize, which could limit their market acceptance and result in a material adverse effect on our financial condition.

Customer contracts, such as with group purchasing organizations and hospital formularies, will often not offer contract or formulary status without either the lowest price or substantial proven clinical differentiation. If our products are compared to animal-derived hyaluronidases by these entities, it is possible that neither of these conditions will be met, which could limit market acceptance and result in a material adverse effect on our financial condition.

The rising cost of healthcare and related pharmaceutical product pricing has led to cost containment pressures that could cause us to sell our products at lower prices, resulting in less revenue to us.

Any of the proprietary or collaboration products that have been, or in the future are, approved by the FDA may be purchased or reimbursed by state and federal government authorities, private health insurers and other

Table of Contents

organizations, such as health maintenance organizations and managed care organizations. Such third party payors increasingly challenge pharmaceutical product pricing. The trend toward managed healthcare in the United States, the growth of such organizations, and various legislative proposals and enactments to reform healthcare and government insurance programs, including the Medicare Prescription Drug Modernization Act of 2003, could significantly influence the manner in which pharmaceutical products are prescribed and purchased, resulting in lower prices and/or a reduction in demand. Such cost containment measures and healthcare reforms could adversely affect our ability to sell our products.

In March 2010, the United States adopted the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the Healthcare Reform Act). This law substantially changes the way healthcare is financed by both governmental and private insurers, and significantly impacts the pharmaceutical industry. The Healthcare Reform Act contains a number of provisions that are expected to impact our business and operations, in some cases in ways we cannot currently predict. Changes that may affect our business include those governing enrollment in federal healthcare programs, reimbursement changes, fraud and abuse and enforcement. These changes will impact existing government healthcare programs and will result in the development of new programs, including Medicare payment for performance initiatives and improvements to the physician quality reporting system and feedback program.

Additional provisions of the Healthcare Reform Act, some of which became effective in 2011, may negatively affect our revenues in the future. For example, the Healthcare Reform Act imposes a non-deductible excise tax on pharmaceutical manufacturers or importers that sell branded prescription drugs to U.S. government programs that we believe will impact our revenues from our products. In addition, as part of the Healthcare Reform Act s provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program, we will also be required to provide a 50% discount on branded prescription drugs dispensed to beneficiaries under this prescription drug program. We expect that the Healthcare Reform Act and other healthcare reform measures that may be adopted in the future could have a material adverse effect on our industry generally and on our ability to maintain or increase our product sales or successfully commercialize our product candidates or could limit or eliminate our future spending on development projects.

Furthermore, individual states have become increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access, importation from other countries and bulk purchasing. Legally mandated price controls on payment amounts by third party payors or other restrictions could negatively and materially impact our revenues and financial condition. We anticipate that we will encounter similar regulatory and legislative issues in most other countries outside the United States.

We face intense competition and rapid technological change that could result in the development of products by others that are superior to our proprietary and collaboration products under development.

Our proprietary and collaboration products have numerous competitors in the United States and abroad including, among others, major pharmaceutical and specialized biotechnology firms, universities and other research institutions that have developed competing products. The competitors for *Hylenex* recombinant include, but are not limited to Bausch & Lomb Inc. and Amphastar Pharmaceuticals, Inc. For our more physiologic insulin product candidates, such competitors may include Biodel Inc., Eli Lily, Sanofi Aventis, Novo Nordisk Inc. and Mannkind Corporation. These competitors may develop technologies and products that are more effective, safer, or less costly than our current or future proprietary and collaboration product candidates or that could render our technologies and product candidates obsolete or noncompetitive. Many of these competitors have substantially more resources and product development, manufacturing and marketing experience and capabilities than we do. In addition, many of our competitors have significantly greater experience than we do in undertaking preclinical testing and clinical trials of pharmaceutical product candidates and obtaining FDA and other regulatory approvals of products and therapies for use in healthcare.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated herein by reference and any free writing prospectus that we have authorized for use in connection with this offering contain certain forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 27A of the Securities Act of 1933, as amended (the Securities Act). All statements, other than statements of historical fact, included or incorporated herein regarding our future product development and regulatory events and goals, product collaborations, our business intentions and financial estimates and results are forward-looking statements. Words such as expect, anticipate, intend, plan, believe, seek, estima may, could, will, would, should, continue, potential, likely, opportunity and similar expressions or variations of such words identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as the development or regulatory approval of new products, enhancements of existing products or technologies, timing and success of the launch of new products by us or by our collaborators, third party performance under key collaboration agreements, revenue and expense levels and other statements regarding matters that are not historical are forward-looking statements. Such statements are based on currently available operating, financial and competitive information, are not guarantees of future performance, and are subject to various risks, uncertainties and assumptions that could cause actual results to differ materially from those anticipated or implied in our forward-looking statements due to a number of factors including, but not limited to, those set forth above under the section entitled Risk Factors contained in this prospectus supplement.

Many of the important factors that will determine these results are beyond our ability to control or predict. You are cautioned not to put undue reliance on any forward-looking statements, which speak only as of the date such forward-looking statements are made. You should carefully read this prospectus supplement, the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering, together with the information incorporated herein by reference as described under the heading Where You Can Find Additional Information, completely and with the understanding that our actual future results may be materially different from what we expect. Except as otherwise required by law, we do not assume any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus supplement or to reflect the occurrence of unanticipated events.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of our common stock offered hereby will be approximately $93.7 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us (or approximately $107.8 million if the underwriters option to purchase additional shares is exercised in full).

We intend to use the net proceeds from this offering to fund research and development of proprietary programs, including the potential acceleration of the PEGPH20 program, and for other general corporate purposes.

PRICE RANGE OF COMMON STOCK

Our common stock is listed on The NASDAQ Global Select Market under the symbol HALO. The last reported sale price for our common stock on February 4, 2014 was $13.78 per share. The table below sets forth high and low sale prices for our common stock during the periods indicated.

	2014		2013		2012	
	High	Low	High	Low	High	Low
First Quarter (through February 4, 2014)	$ 18.18	$ 13.65	$ 8.59	$ 5.14	$ 13.50	$ 9.00
Second Quarter			$ 8.49	$ 5.03	$ 13.05	$ 7.17
Third Quarter			$ 12.15	$ 6.51	$ 9.92	$ 3.86
Fourth Quarter			$ 16.36	$ 9.33	$ 7.63	$ 4.80

DIVIDEND POLICY

To date, we have paid no cash dividends to our stockholders, and we do not intend to pay cash dividends in the foreseeable future.

Table of Contents

DILUTION

If you purchase our common stock in this offering, your interest will be diluted to the extent of the difference between the offering price per share and the net tangible book value per share of our common stock after this offering. Our net tangible book value as of September 30, 2013 was approximately $(3.5) million, or $(0.03) per share. Net tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of shares of our common stock outstanding as of September 30, 2013. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of our common stock immediately after this offering.

After giving effect to the sale by us of 7,692,307 shares of our common stock in this offering at the public offering price of $13.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our as adjusted net tangible book value as of September 30, 2013 would have been approximately $90.2 million, or $0.74 per share. This would represent an immediate increase in net tangible book value of $0.77 per share to existing stockholders and an immediate dilution of $12.26 per share to investors purchasing our common stock in this offering at the public offering price. The following table illustrates this dilution on a per share basis:

$	
$ (0.03)	
0.77	

from the University of Illinois and served on the faculty of the Department of Human Genetics and Development at Columbia University.

R. William Bowen, Senior Vice President, General Counsel and Secretary. Mr. Bowen joined the Company in 1997 as Vice President, General Counsel and Assistant Secretary and was appointed Secretary in August 2002 and Senior Vice President in 2007. Prior to joining the Company, he was a business litigation partner with the law firm of Luce, Forward, Hamilton & Scrip San Diego, California. Mr. Bowen received a B.S. in commerce and a J.D. from the University of Virginia.

Diana De Walt, Senior Vice President Human Resources. Ms. De Walt joined the Company in January 2005 as Vice Preside Human Resources and was appointed Senior Vice President in May 2007. Prior to joining the Company, Ms. De Walt founded HR Company in 1993 and served as its President and Principal Consultant providing professional human resources services to 85 companies in a wide variety of industries. From 1988 to 1993, Ms. De Walt worked at Mitek Systems, Inc. as Director, Hu Resources and subsequently Vice President, Human Resources. From 1987 to 1988, Ms. De Walt was Vice President, Human Resources of Imperial Savings Real Estate Lending Group. From 1984 to 1987, Ms. De Walt was Manager, Human Resources Security Pacific Business Credit and Vice President, Human Resources of Security Pacific Business Finance. Ms. De Walt rec an A.A. in liberal arts from St. Cloud State University and holds a Senior Professional In Resource Management certification.

Martin B. Edelshain, Senior Vice President Corporate Strategy. Mr. Edelshain joined the Company in November 2003 as Vi President, Corporate Development and was appointed Senior Vice President in May 2007. Prior to joining the Company, Mr. Edelshain served as a business consultant to the Company for six months. From 1995 to 2002, Mr. Edelshain was Director International Strategy for Chugai Pharmaceutical Co. Ltd., the Company s former parent company. From 1970 to 1995 Mr. E worked in the field of corporate finance for S. G. Warburg & Co. Ltd, a London based investment bank, specializing in merger acquisition advice, debt and equity financings, and business development in Japan. Mr. Edelshain received a B.A. in mechanic sciences from Cambridge University.

Jorgine Ellerbrock, Senior Vice President Operations. Ms. Ellerbrock joined the Company in November 2007 as Senior Vic President, Operations. From August 2004 to November 2007, Ms. Ellerbrock served as Vice President, Operations of various business units of Invitrogen Corporation, a biotechnology company, most recently serving as Vice President, Operations of its Molecular Biology Business from February 2007 to November 2007. Prior to joining Invitrogen Corporation, Ms. Ellerbrock h number of positions with GE Healthcare Bio-Sciences (formerly Amersham Biosciences), a medical technology and services company, most recently serving as its Vice President, Operations from November 2002 to July 2004 and its Vice President, Genomics Product Management from January 2002 to November 2002. Ms. Ellerbrock received a B.S. in microbiology and an M.B.A. from San Diego State University.

Stephen J. Kondor, Senior Vice President Sales and Marketing. Mr. Kondor joined the Company in July 2005 as Vice Presid Sales and Marketing and was appointed Senior Vice President in May 2007. Mr. Kondor previously served as Vice President/General Manager Genetic Analysis Business of Applied Biosystems (APPLERA), a life sciences company, from November 2004 to June 2005. From January 2003 to November 2004, Mr. Kondor served as Vice President and General Mana Fisher Scientific, a life sciences company. From August 2001 to January 2003, Mr. Kondor served as Senior Vice President an General Manager of IGEN International, a biotechnology diagnostics company. From August 2000 to January 2001, Mr. Kond served as Vice President, Worldwide Marketing & Sales of Avocet Medical Inc., a life sciences company. Prior to those positi Mr. Kondor also held positions at Becton Dickinson Company, Biometric Imaging, Inc., the Diagnostics Division of Abbott Laboratories, and B. Braun Medical. Mr. Kondor received his B.S. in business administration from Moravian College in 1981.

Herm Rosenman, Senior Vice President Finance and Chief Financial Officer. Mr. Rosenman joined the Company as Chief F Officer in June 2001 and was appointed Senior Vice President in May 2007. Prior to joining the Company, he was President an Chief Executive Officer of Ultra Acquisition Corp., a retail chain and consumer products manufacturer, from 1997 to 2000. He President and Chief Executive Officer of RadNet Management, Inc., a large healthcare provider, from 1994 to 1997, and prior was Chief Financial Officer for

Table of Contents

Rexene Corp., a Fortune 1000 company in the petrochemicals industry. Mr. Rosenman was previously a partner at Coopers & Lybrand (now PricewaterhouseCoopers LLP) where he served numerous Fortune 1000 clients, principally in the pharmaceutic telecommunications industries. Mr. Rosenman received a B.B.A. in finance and accounting from Pace University and an M.B. finance from the Wharton School of the University of Pennsylvania. Mr. Rosenman serves on the Board of Directors of ARYx Therapeutics, a drug discovery and development company, where he serves as Chairman of the Audit Committee and as Lead Independent Director. Mr. Rosenman also serves on the Board of Directors of Emphasys Medical, Inc., where he serves as Cha of the Corporate Governance Committee and as a member of the Audit Committee.

Christina C. Yang, Ph.D., Senior Vice President Clinical, Regulatory and Quality. Dr. Yang joined the Company in April 20 Vice President, Clinical, Regulatory and Quality and was appointed Senior Vice President in May 2007. Prior to joining the Company, Dr. Yang was previously employed by Focus Diagnostics, a healthcare diagnostics company, most recently serving Vice President, Quality and Regulatory Affairs from June 2003 to April 2007 and as Senior Director, Quality Systems from M 2001 until June 2003. Dr. Yang received a B.S. in biology from National Taiwan Normal University and a Ph.D. in zoology fr Iowa State University.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Role and Membership of the Compensation Committee

Members of the Compensation Committee are independent directors who are not employees of the Company or its subsidiaries Compensation Committee is currently comprised of the following four members: Mr. Kessler, who serves as Chairperson, Mr. Brown, Dr. Martin and Mr. Schneider. On May 31, 2007, Dr. McNamee retired from the Board and ceased his service on t Compensation Committee, and Mr. Schneider began serving on the Compensation Committee. Dr. Martin became a member o Compensation Committee on September 20, 2007, in connection with his appointment to the Board of Directors on such date. of the Compensation Committee members has any material business relationships with the Company or its subsidiaries. All of members of the Compensation Committee are independent, as that term is defined by Nasdaq Marketplace Rule 4200(a)(15

The Compensation Committee operates pursuant to a written charter that outlines its specific authority, duties and responsibilit The charter is periodically reviewed and revised by the Compensation Committee and the Board and is available on the Compa website at *www.gen-probe.com*.

The Compensation Committee meets at scheduled times during the year and holds additional meetings from time to time to rev and discuss executive compensation issues. The Compensation Committee may also take action by written consent. The Compensation Committee held nine meetings during fiscal year 2007 and acted by written consent on two occasions. Executiv officers are not present during the discussion of their compensation.

The Compensation Committee acts on behalf of the Board to review and adopt and oversee the Company s compensation stra policies, plans and programs, including:

- establishment of corporate and individual performance objectives relevant to the compensation of the Company s exe officers and evaluation of performance in light of these stated objectives;
- review and approval of the compensation and other terms of employment or service, including severance and change-in-control arrangements, of the Company s Chief Executive Officer and the other executive officers and direc
- administration of the Company s equity compensation plans, deferred compensation plans and other similar plans and programs.

Table of Contents

Executive Compensation Philosophy

Compensation for Gen-Probe s named executive officers (NEOs) is intended to be largely performance-based. In establishi Company s compensation program for the NEOs, the Compensation Committee has four principle objectives:

ensuring that the Company is able to attract and retain executives through the use of industry-competitive base compensation;

providing total compensation that is competitive in the industry and that is tied to, and varies based upon, individual ar corporate performance;

incentivizing NEOs to make prudent business decisions and maximize stockholder value by providing a significant por total compensation opportunities in the form of direct ownership in the Company through restricted stock and stock options; and

maintaining internal pay equity among employees.

In order to address these priorities, the Compensation Committee regularly assesses compensation components that it believes most cost effectively attract and motivate executive officers and reward them for their individual achievements and those of th Company as a whole. The Compensation Committee has retained an independent consultant, Compensia, to assist it in its anal key elements of compensation programs. Compensia is an independent consultant specializing in compensation matters. The Company does not maintain any other relationship with Compensia other than Compensia s role as a consultant to the Compe Committee.

The Compensation Committee allocates total compensation between cash and equity compensation based on benchmarking to Company s peer group, discussed below, while considering the balance between providing short-term incentives and long-ter parallel investment with stockholders to align the interests of management with stockholders. Annually, the Compensation Committee evaluates the balance between equity and cash compensation among NEOs.

Based on its review of the above-mentioned objectives, the Company has established a compensation program that consists of following six components:

base salary;

an annual cash bonus that is dependent on individual and/or corporate performance;

equity awards, consisting of stock options and restricted stock;

the opportunity to defer compensation under a nonqualified deferred compensation plan;

post-termination benefits that are triggered in limited circumstances; and

other health and welfare benefits generally offered to all employees of the Company.

To tie compensation to performance, there is no minimum award of compensation required by the Company s bonus plan or t Company s stock option/restricted stock award program. As a further measure, the Company introduced a stock ownership po executive officers in 2006. Under the policy, executive officers are expected, within five years of the later of September 28, 20 an executive s appointment, to acquire and hold Company stock (including restricted shares) equal in value to at least three ti

salary in the case of the Chief Executive Officer, two times base salary in the case of executive and senior vice presidents and times base salary in the case of vice presidents. The Company believes that this ownership policy further aligns executive and stockholder interests and thereby promotes the objective of increasing stockholder value.

Determination of Compensation Awards

The Compensation Committee is provided with the authority to determine the compensation awards available to NEOs. In determining such awards, the Compensation Committee has relied on written reports provided by Compensia with respect to competitive practices and the amounts and nature of compensation paid to executive

Table of Contents

officers in a peer group of companies. Compensia has also provided advice to the Compensation Committee regarding, among things, structuring the Company s various compensation programs and determining the appropriate levels of salary, bonus and awards payable to the Company s executive officers. Based upon Compensia s recommendations, the Company s cash and s incentive awards are weighted significantly towards variable components to ensure that total compensation reflects the overall success or failure of the Company, and to motivate executive officers to meet appropriate performance measures, thereby maximizing total return to stockholders.

In addition, to further aid the Compensation Committee in making its determinations, the Chief Executive Officer provides recommendations annually to the Compensation Committee regarding the compensation of all NEOs, excluding himself. The C Executive Officer s recommendations are guided by the results of the Chief Executive Officer s annual performance review o NEO, at which time each NEO s individual goals are assessed in light of overall corporate goals. In addition, each NEO provi input about his or her individual contributions to the Company s success for the period being assessed.

Compensation Benchmarking and Peer Group

An important component of structuring compensation and establishing target compensation levels for the Company s executiv officers is determining the compensation packages offered to similarly situated executive officers of peer group companies. As of its engagement, the Compensation Committee directed Compensia to develop a comparative group of companies and to per analyses of competitive performance and compensation levels for that group. Compensia also conducted individual interviews members of senior management and the Compensation Committee to learn more about the Company s business operations an strategy, key performance metrics and strategic goals, as well as the labor markets in which the Company competes. Compensi ultimately developed recommendations and metrics that were presented to the Compensation Committee for its consideration. Company does not have any relationship or arrangement with Compensia other than engaging Compensia as a compensation consultant.

In August 2005, Compensia prepared a report at the direction of the Compensation Committee, which analyzed competitive pr and the amounts and nature of compensation paid to executive officers of a peer group of diagnostic, pharmaceutical and biotechnology companies of similar size based on revenue and market capitalization. The peer group identified in the 2005 Compensia report consisted of the following companies:

Affymetrix	Inverness Medical Innovations	KOS Pharmaceuticals	Sepracor
Amylin Pharmaceuticals	Martek Biosciences	Medicis	TECHNE Corpo
Biosite	IDEXX Labs	Millennium Pharmaceuticals	Vertex
Cytyc Corporation	ImClone Systems	Neurocrine Biosciences	United Therapeu
Diagnostic Products	Immucor	Protein Design Labs	

In July 2006, Compensia prepared another report at the direction of the Compensation Committee that analyzed compensation to Chief Executive Officers and Chief Operating Officers of the same companies identified in the August 2005 Compensia rep (other than Sepracor and including Ligand Pharmaceuticals). Based on the data presented to the Compensation Committee by Compensia and the analysis described above, the Compensation Committee has targeted base salary and annual cash incentive compensation for NEOs around the 60th percentile of this peer group of companies and targeted equity incentive compensation NEOs around the 75th percentile of this peer group. In determining the level of compensation provided to its executive officers Compensation Committee also evaluates the financial performance of peer group companies, in addition to evaluating the Com independent performance, to gauge the Company s comparative performance within its peer group. In addition, the Compensa Committee considers the Company s geographic location in San Diego, where there is significant competition for employees i diagnostic, pharmaceutical and biotechnology industries. The Compensation Committee also evaluates individual NEO perfor on an annual basis and may award merit salary increases as a result of these assessments. This approach ensures that the Comp compensation structures will enable it to remain competitive in its markets and reward individual NEO performance.

28

Table of Contents

While the Compensation Committee targets cash compensation and equity awards in the percentiles stated above, the Compen Committee recognizes the Company s desire to keep the best talent among the Company s executive management team. To r motivate these key individuals, the Compensation Committee may determine that it is in the best interests of the Company to negotiate or award total compensation that may deviate from the general benchmark targets described above. Actual pay for ea executive is determined around this structure, driven by the performance of the executive over time, as well as the annual performance of the Company. Equity grant guidelines are then set by job level, using market survey data and current guideline determine the appropriate annual grant levels for the upcoming year.

For 2007, NEOs other than our Chief Executive Officer received base salary and annual cash incentive compensation between approximately the 50th and 85th percentile, and equity incentive awards around approximately the 75th percentile, in each cas compared to similarly situated executive officers of the Company s designated peer group. Our Chief Executive Officer receiv salary and cash incentive compensation, as well as equity incentive awards, around the 75th percentile of the Company s peer The foregoing comparisons are based on the most current data available to the Company, generally calculated based on the Compensia reports described above and applying an approximately 4% annual increase adjustment to the data presented therei Please see the Summary Compensation Table and Employment Agreements with Executive Officers below for additiona information regarding the amounts payable to our NEOs for fiscal 2007.

Base Salary

Each executive officer s base salary is determined by the Compensation Committee during the first quarter of the fiscal year. Chief Executive Officer has a minimum base salary of $645,000 that was established by the terms of his employment agreeme which is described below under Employment Agreements with Executive Officers. The Company s other executive officer have minimum salary levels established by contract.

The base salary component of the Company s compensation program is designed to provide its executive officers with total ca compensation that is around the 60th percentile among peer group companies and that is competitive in the San Diego market. establishing the amount, the Compensation Committee has relied on peer group data included in Compensia s written reports. Company pays a base salary at the levels established by the Compensation Committee to satisfy the competitive base compo priority within the Company s compensation philosophy. In addition, each year the Compensation Committee determines base increases for the NEOs based upon the Compensation Committee s continuing review of peer group compensation, as well as subjective evaluation of the performance of the executive officers as assessed by the Compensation Committee and the Chief Executive Officer, as well the officer s experience, commitment to corporate core values and potential for advancement. No fo base salary increases are provided to the NEOs. The Compensation Committee awarded base salary increases of approximately to all NEOs other than Mr. Hull for fiscal 2008. On February 8, 2008, the Board of Directors appointed Mr. Hull as President a Chief Operating Officer of the Company, effective March 1, 2008. In connection with Mr. Hull s promotion, the Compensatio Committee approved an annual base salary for Mr. Hull of $490,875, effective March 1, 2008.

Annual Cash Bonus Awards

Annual cash bonuses for executive officers are determined under the terms of the Company s annual bonus plans. As detailed cash bonuses are not guaranteed and are not paid if the Company fails to achieve adequate growth in comparison to its financia performance targets, which for 2007 were based on total revenues and earnings per share (EPS). Bonus awards under each o bonus plans vary upon our financial performance in these areas. In addition, bonus awards for NEOs (other than our Chief Exe Officer and Chief Operating Officer) are based on an assessment of individual performance. The Company s annual cash bonu are designed to reward an executive officer for his or her contribution to the Company s achievement of its financial goals and the executive s overall job performance.

Fiscal 2007 bonus awards for the Company s Chief Executive Officer and Chief Operating Officer were made under the Gen- Incorporated 2007 Executive Bonus Plan (the Executive Plan). Under the Executive Plan, the target bonus amounts for the

Company s Chief Executive Officer and Chief Operating Officer were 75% and

Table of Contents

50%, respectively, of annual base salary. Fiscal 2007 bonus awards for all other NEOs were made under the 2007 Gen-Probe Employee Bonus Plan (the 2007 Plan, and together with the Executive Plan, the Bonus Plans). Under the 2007 Plan, the amount for each participating NEO was 25% of annual base salary.

In addition to the target bonus amounts describe above, two factors, the Company Performance Factor (CPF) and the Indivi Team Performance Factor (ITPF), were used to determine bonuses payable under the Bonus Plans for fiscal 2007. Bonus av to the Company s Chief Executive Officer and Chief Operating Officer under the Executive Plan were determined solely by th which is based on the achievement of the Company s annual financial performance targets described below. Bonus awards un 2007 Plan were determined using the CPF and an ITPF assigned to each participating NEO, which is based on the assessment NEO s individual performance. Fiscal 2007 bonuses were calculated under the Bonus Plans in accordance with the formulas s below (the Bonus Formulas):

Executive Plan	**2007 Plan**
Bonus = (Base Pay x% Target x CPF)	Bonus = X + Y X = (Base Pay x % Target x CPF x 50%) Y = (Base Pay x % Target x CPF x ITPF x 50%)

In the first quarter of 2007, the Compensation Committee established fiscal 2007 financial performance goals of 22% EPS gro and 11% total revenue growth, in each case as compared to fiscal 2006 financial performance. EPS and total revenue growth v were then plotted on a bonus matrix approved by the Compensation Committee, which awarded CPF values of between 0% an 150% based on the achievement of our financial performance goals. The bonus matrix weighted EPS growth and total revenue growth equally in establishing CPF values. The precise achievement of each performance goal would yield a CPF value of 100 Under the bonus matrix, total revenue and EPS growth of 21% and 32%, respectively, would have yielded a 150% CPF value, 1% total revenue growth and 12% EPS growth would have yielded a 0% CPF value. For fiscal 2007, the Company had total re of $403.0 million and EPS of $1.58, representing an increase of approximately 14% and 41%, respectively, over fiscal 2006 fi performance. As a result, a CPF value of 132.5% was awarded under the Bonus Plans in accordance with the predetermined bo matrix for fiscal 2007 financial performance.

Also in the first quarter of 2007, each NEO participating in the 2007 Plan, with the review, input and approval of our Chief Executive Officer, established between six to ten individual performance goals that formed the basis upon which their respecti ITPF value would be determined. These goals were designed to reflect each executive s area of responsibility within the Com and, to the extent possible, were generally structured to include an objectively measurable component (*i.e.*, a numeric or other capable of independent measurement or satisfaction). Each goal was then assigned a specific percentage of that officer s overa value, with all goals totaling 100%. In 2007, no individual performance goal accounted for greater than 20% of any NEO s to Set forth below are general descriptions of certain primary individual goals for each 2007 Plan NEO participant:

Table of Contents

Named Executive Officer	Goal Description
Herm Rosenman *Senior Vice President, Finance and Chief Financial Officer*	Achieve revenue, expense and net income goals per 200 operating plan Drive continuous improvement process resulting in a reduction in operating cost or time to market
Daniel L. Kacian, Ph.D., M.D. *Executive Vice President and Chief Scientist*	Identify and evaluate new technologies with significant potential value Analyze intellectual property, scientific developments a medical research and evaluate their impact on the Comp future strategic and tactical plans
Diana De Walt *Senior Vice President, Human Resources*	Maintain department costs within pre-established budge Develop and implement new compensation strategy, pr and procedures
R. William Bowen *Senior Vice President and General Counsel*	Management of legal matters within a pre-established b Plan and coordinate meetings of the Board of Directors Board Committees

As part of the Company s annual employee performance appraisal process, our Chief Executive Officer provided to the Comp Committee his assessment of the individual performance of each NEO set forth above against their respective 2007 ITPF goals NEO was eligible to receive an ITPF value of between 0% and 150% under the 2007 Plan. After performing an assessment of 2007 individual NEO performance and taking into consideration the recommendations of our Chief Executive Officer, the Compensation Committee awarded NEOs participating in the 2007 Plan with ITPF values of between 100% and 130%. Actual awards paid to our NEOs for fiscal 2007 in accordance with the Bonus Formulas are set forth below in the Summary Compen Table.

In connection with Mr. Hull s promotion to President and Chief Operating Officer effective March 1, 2008, the Compensation Committee increased Mr. Hull s target bonus under the Executive Plan from 50% of base salary to 60% of base salary, comm in fiscal 2008.

Equity Awards

Overview. Each executive officer, as well as each other full-time employee of the Company, is eligible to receive an annual eq compensation award. The Company believes, based on its performance-based approach to compensation, that equity ownershi the Company is important to tie the ultimate level of compensation to the performance of the Company s stock and stockholde while creating an incentive for sustained growth. The Company believes that this is especially true in the case of executive offi

Guidelines for the number of stock options and restricted stock awards granted to each executive officer are determined using a procedure approved by the Compensation Committee based upon the executive officer s salary grade, performance and the va the award at the time of grant. In addition, the Compensation Committee may consider peer group data presented in Compensi reports in making such awards. As a result, additional grants other than the annual award may be made following a significant change in job responsibility or in recognition of a significant achievement.

The Compensation Committee generally does not consider the number of options and/or restricted stock awards held by NEOs making grants as it believes that awards should be given based on successful job performance and should not be discounted on

account of accumulated equity value. Further, the Compensation Committee believes that competitors who may try to hire the Company s NEOs would not give full credit for existing equity ownership in Gen-Probe, and, to remain competitive, similarly credit old awards when

Table of Contents

approving new grants. While the Compensation Committee has not adopted a rigid formula for allocating equity incentive awa granted to NEOs between stock options and restricted stock, in general, the Compensation Committee has historically awarded approximately one restricted stock award for every three to five stock option awards granted to its NEOs. Allocation of equity awards between options and restricted stock is generally based on an analysis of market practice among peer group companies existing compensation guidelines established by the Compensation Committee and individual NEO performance.

In 2007, all stock options and restricted stock awards made to NEOs, and all Company employees, were made under the terms 2003 Plan. Stock options granted under the 2003 Plan have a four-year vesting schedule in order to provide an incentive for continued employment. All stock options granted after May 17, 2006, when stockholders approved an amendment to the 2003 expire seven years from the date of the grant. This provides a reasonable time frame in which to align the executive officer wit price appreciation of the Company s shares, while managing overhang more effectively as compared to a more typical ten-yea term, which the Company used prior to the May 2006 amendment.

Effective November 16, 2006, the exercise price of options granted under the Company s stock plans, including the 2003 Plan equal to the closing price of the Company s common stock on the date of grant. Prior to this date, the Company s stock optio including the 2003 Plan, provided that the exercise price of options be equal to the closing price of the Company s common st the date prior to the date of grant.

All restricted stock awards made to NEOs have a four-year vesting schedule, with twenty-five percent of the shares vesting on anniversary of the grant date. The Company believes this vesting schedule provides an important incentive for continued employment, especially when compared to various monthly vesting alternatives. In addition, under the terms of the 2003 Plan, share of restricted stock granted subsequent to May 17, 2006 reduces the number of shares reserved for issuance under the plan two shares.

In the event of a change in control of the Company, each of the Company s equity incentive plans provides that all outstandin options and restricted shares automatically become fully vested, exercisable or payable, as applicable. The Company believes t this provision effectively rewards its employees, substantially all of whom receive equity compensation, in the event the Comp acquired and encourages NEOs to seek out and support transactions that are in the best interests of the Company and its stockh even though they may personally experience potential employment and other economic risks from the transactions.

Deferred Compensation Plan

The Company maintains a Deferred Compensation Plan (the DCP) that allows certain highly compensated management, inc the NEOs, key employees and directors of the Company, to defer up to 80% of annual base salary or director fees and up to 10 annual bonus compensation. In 2007, our Senior Vice President and General Counsel was the only NEO to participate in the D

Deferred amounts are credited with gains and losses based on the performance of deemed investment options selected by a committee appointed by our Board of Directors to administer the DCP. The DCP also allows for discretionary contributions to made by the Company. Participants may receive distributions upon (i) a pre-set date or schedule that is elected during an appro election period, (ii) the occurrence of unforeseeable financial emergencies, (iii) termination of employment (including retireme (iv) death, (v) disability, or (vi) a change in control of the Company as defined in the DCP. Certain participants must wait six m following termination of employment to receive distributions. Amounts deferred under the DCP after 2004 are subject to Section 409A of the Code.

The Company may terminate the DCP at any time with respect to participants providing services to the Company. Upon termi of the DCP, participants will be paid out in accordance with their prior distribution elections and otherwise in accordance with DCP. Upon and for twelve months following a change of control, the Company has the right to terminate the DCP and, notwithstanding any elections made by participants, to pay out all benefits in a lump sum, subject to the provisions of the Code

32

Table of Contents

Post-Termination Benefits

Post-termination benefits for executive officers are established pursuant to the terms of their individual employment agreemen
further described under Potential Payments Upon Termination or Change-in-Control, each NEO is entitled to certain cash
consideration and other benefits in the event the NEO is terminated other than for cause, if the NEO terminates employmen
reason or if the NEO is terminated following a change in control, in each case with such payments and benefits conditioned u
execution by the NEO of a general release of all claims. The employment agreements with each NEO that provide for these be
each have a double trigger change in control policy. The Compensation Committee believes that this policy best aligns stoc
and management since it keeps the decision of paying severance costs with the acquiring company, not with current manageme
a result, in the event an acquiring company desires to employ some or all of management following an acquisition, the conside
that otherwise would be allocated solely to management under a single trigger policy can instead be shared by all stockhold

The Compensation Committee intends that this double trigger change in control policy provides fair and equitable compens
the event of a termination following a change in control. By providing for reasonable severance in the event of an employment
termination upon a change in control, the Compensation Committee intends to provide each NEO with compensation that is
sufficient to mitigate the risk of employment loss and encourage him or her to assist in undertaking the transaction. The amoun
the severance is balanced against the Company s need to be responsible to its stockholders, and also takes into account the po
negative impact such severance payments may have on the acquiring party in a change in control transaction.

The various levels of post-termination benefits for each NEO were determined by the Compensation Committee to be appropri
the individual based on such person s duties and responsibilities with the Company and was the result of arms-length negotiat
The Company also determined the different levels to be appropriate and reasonable when generally compared to post-terminati
benefits provided by the Company s peers to executives with the same title and similar levels of responsibility. The Company
believes that these benefits take into account the expected length of time and difficulty the individual may experience in trying
secure new employment.

Other Benefits

The Company provides its executive officers with the following benefits that are also available to all of its full-time employees

Employee Stock Purchase Plan. The Company maintains a tax-qualified ESPP that allows all participants to acquire Gen-Prob
common stock at a discount price. This plan has a six-month look-back and allows participants to buy Gen-Probe stock at a 15
discount to the lower of the market price on the first or last day of the applicable six-month offering period with up to 15% of h
her base salary or a maximum of $21,250 annually. The Company offers the ESPP to allow employees to profit when the valu
Gen-Probe stock increases over time. Because of the tax advantages associated with holding stock purchased through the ESPP
Company also believes the ESPP aligns participants interests with stockholders. All of our NEOs other than Mr. Hull purcha
shares under the ESPP in 2007.

401(k) Plan. The Company offers to all full-time employees the opportunity to participate in a 401(k) Plan. The 401(k) Plan p
eligible employees of the Company to defer up to 100% of their annual compensation, subject to certain limitations imposed b
Code. The employees elective deferrals are immediately vested and non-forfeitable upon contribution to the 401(k) Plan. In o
incentivize prudent retirement savings and supplement retirement income, the Company matches up to 50% of an employee s
contributions, up to a maximum annual contribution equal to 6% of an employee s base salary, subject to a four year vesting s
Each NEO other than Mr. Hull participated in the 401(k) Plan in 2007 and received matching contributions in the amount of $6
from the Company.

Health and Welfare Benefits. The Company s healthcare, life and disability insurance, and other welfare and employee-benef
programs are the same for all eligible full-time employees, including executive officers. Because of the importance placed by t
Company on the health and welfare of its employees, the Company paid 100% of

33

Table of Contents

the premiums associated with these programs on behalf of all of its full-time employees in 2007. The Company also significan subsidizes healthcare premiums for all employees with eligible dependents.

In addition to the foregoing, the Company provides the following benefits to Mr. Nordhoff pursuant to his employment agreem term life insurance policy providing for payment of $1 million to his designated beneficiaries upon his death; a long term disab insurance policy providing for payment at a rate of not less than $200,000 per annum; and accidental death and disability insur for a benefit of $400,000 (airplane) and $200,000 (automobile or walking) should Mr. Nordhoff suffer accidental death or disa during the term of his employment agreement. Please see Employment Agreements with Executive Officers below for addi information regarding the benefits provided to Mr. Nordhoff pursuant to his employment agreement.

Policies with Respect to Equity Compensation Awards

The Compensation Committee evaluates the allocation of equity awards among stock option grants, restricted stock grants, sto appreciation rights and the various other incentives available under the Company s stock option plans by reference to the peer discussed above. Since November 16, 2006, the Company grants all equity incentive awards based on the fair market value as date of grant. Prior to this date, the Company used the fair market value as of the close of business on the date prior to the date grant, as required under the then-applicable terms of its option plans. The Company does not have a policy of granting equity-b awards at other than the fair market value on the date of grant. The exercise price for stock option grants and similar awards is determined by looking at the fair market value of the last quoted price per share on the Nasdaq Global Select Market on the da grant.

The Company determined the date of grant for 2007 option awards and restricted stock grants to eligible employees at its Boar Directors meeting immediately preceding its annual meeting, selecting a date of grant which was a number of months in advan the actual grant and that was outside of a blackout period under the Company s Securities Trading Policy. Specifically, the Bo Directors determined on May 31, 2007 that the grant date for all annual awards to eligible employees would be August 15, 200 Compensation Committee then determined on July 30, 2007 the actual amount of the awards to be given to each NEO, other th Mr. Nordhoff. By selecting a grant date a number of months in the future, and having this date fall outside of a blackout period Company seeks to avoid any market-timing with respect to its equity grants. The Board of Directors determined at the same 2007 meeting that Mr. Nordhoff would receive his stock option awards and restricted stock grants on August 15, 2007, which coincided with the date that all other NEOs of the Company received their grants of annual equity awards.

The Company does not have any formal clawback policies relating to equity awards. The Compensation Committee intends to evaluate the prudence of adopting such policies in the future.

Tax Considerations

Section 162(m) of the Code limits the Company s tax deductibility of annual compensation in excess of $1,000,000 paid to ou Executive Officer and any of our three other most highly compensated executive officers, other than our Chief Financial Offic However, performance-based compensation that has been approved by our stockholders is excluded from the $1,000,000 limit among other requirements, the compensation is payable only upon the attainment of pre-established, objective performance go the committee of our board of directors that establishes such goals consists only of outside directors. All members of the Compensation Committee qualify as outside directors.

The Compensation Committee considers the anticipated tax treatment to the Company and our executive officers when review executive compensation and our compensation programs. The deductibility of some types of compensation payments can depe upon the timing of an executive s vesting or exercise of previously granted rights or termination of employment. Interpretation and changes in applicable tax laws and regulations, as well as other factors beyond the Compensation Committee s control, al affect the deductibility of compensation.

While the tax impact of any compensation arrangement is one factor to be considered, this impact is evaluated in light of the Compensation Committee s overall compensation philosophy and objectives. The Compensation

Table of Contents

Committee will consider ways to maximize the deductibility of executive compensation, while retaining the discretion it deem necessary to compensate officers in a manner commensurate with performance and the competitive environment for executive From time to time, the Compensation Committee may award compensation to our executive officers which is not fully deducti it determines that the award is consistent with its philosophy and is in our and our stockholders best interests, such as time ve grants of restricted stock or grants of incentive stock options.

Our Executive Plan has been designed and implemented with the intent to allow us to pay performance-based compensation un Section 162(m) of the Code.

SUMMARY COMPENSATION TABLE

The following table shows for the fiscal years ended December 31, 2006 and 2007, compensation awarded to or paid to, or ear by, our NEOs, consisting of the Company s Chief Executive Officer, Chief Financial Officer, its three other most highly comp executive officers in fiscal 2007, and one additional executive officer who was included as a Named Executive Officer in the Company s proxy statement for the 2007 annual meeting.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Restricted Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Tot ($
Henry L. Nordhoff	2007	677,389	905,035	1,428,261	668,250	46,844	3,72
Chairman and Chief Executive Officer	2006	645,000	739,503	1,883,693	470,000	64,450	3,80
Herm Rosenman	2007	342,095	204,980	277,863	109,134	9,330	94
Senior Vice President Finance and Chief Financial Officer	2006	315,000	106,721	380,093	83,000	7,890	89
Carl W. Hull	2007	375,961	130,469	309,179	280,500	301,911	1,39
President and Chief Operating Officer	2006						
Daniel L. Kacian, Ph.D., M.D.	2007	384,169	317,474	437,904	146,024	8,730	1,29
Executive Vice President and Chief Scientist	2006	363,000	161,701	617,292	110,000	8,580	1,26
Diana De Walt	2007	292,095	217,477	445,791	101,372	7,418	1,06
Senior Vice President Human Resources	2006	276,000	109,032	639,526	68,000	7,224	1,09
R. William Bowen	2007	335,486	217,477	356,312	110,887	7,440	1,02
Senior Vice President, General Counsel and Secretary	2006	317,000	109,032	450,584	87,000	7,515	97

(1) The amounts included in the Restricted Stock Awards column represent the compensation cost that was recognized b Company in fiscal years 2006 and 2007 related to awards of restricted stock granted during such years and previous fisc years determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Base The valuation assumptions used in determining such amounts are described in Note 2 to our consolidated financial state

included in our Annual Report on Form 10-K for the year ended December 31, 2007. Please see the Grants of Plan-Ba Awards in Fiscal 2007 table for more information regarding awards of restricted stock during fiscal 2007.

(2) The amounts included in the Option Awards column represent the compensation cost that was recognized by the Cor fiscal years 2006 and 2007 related to grants of options during such years and previous fiscal years determined in accord with SFAS No. 123(R). The valuation assumptions used in determining these amounts are described in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. see the Grants of Plan-Based Awards in Fiscal 2007 table below for more information regarding option grants during 2007.

(3) Non-Equity Incentive Plan Compensation is composed entirely of cash bonuses awarded under the Bonus Plans with to performance during the 2006 and 2007 fiscal years. Please see Annual Cash Bonus Awards above for additional information regarding the Bonus Plans. Amounts earned in 2006 were paid during fiscal year 2007 and amounts earned 2007 were paid during fiscal year 2008. All individual and financial

Table of Contents

performance goals used in calculating amounts earned under the Bonus Plans were pre-determined. In addition, to the exte possible, individual performance goals were generally structured to include an objectively measurable component. All amo paid were at the determination of the Compensation Committee.

(4) Amounts included in the All Other Compensation are as follows:

Named Executive Officer	Year	Matching 401(k) ($)	Life Insurance Benefits ($)	Relocation Benefits ($)	Personal Travel Expenses ($)(1)	Tax Gross-Up Payments ($)(2)	Miscellaneous ($)	To (
Henry L. Nordhoff	2007	6,750	16,470		13,496	10,128		4
	2006	6,600	18,450		19,938	17,004	2,458	6
Herm Rosenman	2007	6,750	1,980				600	
	2006	6,600	1,290					
Carl W. Hull	2007		610	174,006		127,295		30
	2006							
Daniel L. Kacian, Ph.D., M.D.	2007	6,750	1,980					
	2006	6,600	1,980					
Diana De Walt	2007	6,750	668					
	2006	6,600	624					
R. William Bowen	2007	6,750	690					
	2006	6,300	690				525	

(1) Includes personal travel expenses for Mr. Nordhoff and his wife.

(2) Includes tax gross-up payments for (a) Mr. Nordhoff s personal travel expenses and (b) Mr. Hull s relocation benefits.

Table of Contents

Grants of Plan-Based Awards

The following table shows for the fiscal year ended December 31, 2007, certain information regarding grants of plan-based aw
the NEOs:

Grants of Plan-Based Awards in Fiscal 2007

Name	Grant Date	Board or Comp. Committee Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)(2)	All Other Option Awards: Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards ($/Sh)	Closing Market Price on the Grant Date ($/Sh)	C Da Va Sto C A (
Henry L. Nordhoff				508,041	762,062					
	8/15/07	5/31/07				20,000			60.82	1,
	8/15/07	5/31/07					100,000	60.82	60.82	2,
Herm Rosenman				85,524	160,357					
	8/15/07	7/30/07				7,000			60.82	
	8/15/07	7/30/07					20,000	60.82	60.82	
Carl W. Hull				212,500	318,750					
	3/1/07	2/8/07				10,000			47.42	
	3/1/07	2/8/07					75,000	47.42	47.42	1,
	8/15/07	7/30/07				5,000			60.82	
	8/15/07	7/30/07					35,000	60.82	60.82	
Daniel L. Kacian, Ph.D., M.D.				96,042	180,079					
	8/15/07	7/30/07				10,000			60.82	
	8/15/07	7/30/07					25,000	60.82	60.82	
Diana De Walt				73,024	136,920					
	8/15/07	7/30/07				8,000			60.82	
	8/15/07	7/30/07					23,000	60.82	60.82	
R. William Bowen				83,871	157,259					
	8/15/07	7/30/07				8,000			60.82	
	8/15/07	7/30/07					23,000	60.82	60.82	

(1)

These numbers represent the target and maximum cash bonus amounts that could have been earned for fiscal 2007 pursu the Bonus Plans. Actual amounts awarded for 2007 are included in the Summary Compensation Table above. For fis for all individuals above other than Mr. Nordhoff and Mr. Hull, cash bonuses were paid pursuant to the 2007 Plan based the attainment of the Company s financial and individual performance goals. For Mr. Nordhoff and Mr. Hull, a cash bo paid for 2007 pursuant to the Executive Plan based solely upon the attainment of the Company s financial performance See Annual Cash Bonus Awards above for additional information regarding the amounts reported.

(2) Restricted stock awards were granted pursuant to the 2003 Plan. The awards granted to all NEOs other than Mr. Nordho have a four-year vesting schedule with 25% of the shares subject to each award vesting on each anniversary of the date grant, subject to trading window restrictions. The deferred issuance restricted stock awards granted to Mr. Nordhoff ves one year from the date of grant and 1/48 each month thereafter until fully vested.

(3) Option grants were made pursuant to the 2003 Plan. The options vest and become exercisable on a four-year vesting sch Options vest 25% one year from the date of grant and 1/48 each month thereafter until fully vested.

(4) The amounts set forth in the Grant Date Fair Value of Stock and Option Awards column is the full grant date fair val awards determined in accordance with SFAS No. 123(R). The valuation assumptions used in determining such amounts described in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year e December 31, 2007.

Table of Contents

Outstanding Equity Awards at Fiscal Year-End

The following table shows for the fiscal year ended December 31, 2007, certain information regarding outstanding equity awar fiscal year end for our NEOs.

Outstanding Equity Awards At December 31, 2007

	Option Awards(1)					Stock Awards(2)			
Name	Award Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)(3)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(4)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	
Henry L. Nordhoff	08/17/00	21,396		13.66	08/17/10				
	09/01/01	18,881		12.29	09/01/11				
	06/01/02	324,673		12.29	06/01/12				
	08/15/03	100,000		29.53	08/15/13				
	06/01/04	89,586	10,414	41.94	06/01/14				
	05/20/05	64,583	35,417	43.55	05/20/15				
	10/17/05	10,291	8,709	42.50	10/17/15				
	05/18/06	39,583	60,417	52.69	05/18/13				
	08/15/07		100,000	60.82	08/15/14				
	06/01/04					2,500	157,325	17,500	
	05/20/05					7,084	445,796	12,916	
	05/18/06					12,084	760,446	7,916	
	08/15/07					20,000	1,258,600		
Total		**668,993**	**214,957**			**41,668**	**2,622,167**	**38,332**	

Herm Rosenman	06/11/01			13.66	06/11/11		
	09/01/01			12.29	09/01/11		
	06/01/02			12.29	06/01/12		
	08/15/03	50,288		29.53	08/15/13		
	09/13/04	20,312	4,688	36.59	09/13/14		
	10/17/05	10,833	9,167	42.50	10/17/15		
	08/15/06	6,666	13,334	49.29	08/15/13		
	08/15/07		20,000	60.82	08/15/14		
	10/17/05					3,500	220,255
	08/15/06					5,250	330,383
	08/15/07					7,000	440,510
Total		**88,099**	**47,189**			**15,750**	**991,148**
Carl W. Hull	03/01/07		75,000	47.42	03/01/14		
	08/15/07		35,000	60.82	08/15/14		
	03/01/07					10,000	629,300
	08/15/07					5,000	314,650
Total			**110,000**			**15,000**	**943,950**
Daniel L. Kacian, Ph.D., M.D.	08/17/00	36,749		13.66	08/17/10		
	09/01/01	9,544		12.29	09/01/11		
	06/01/02	14,707		12.29	06/01/12		
	08/15/03	70,000		29.53	08/15/13		
	09/13/04	40,625	9,375	36.59	09/13/14		
	10/17/05	16,250	13,750	42.50	10/17/15		
	08/15/06	10,666	21,334	49.29	08/15/13		
	08/15/07		25,000	60.82	08/15/14		
	10/17/05					5,000	314,650
	08/15/06					9,000	566,370
	08/15/07					10,000	629,300
Total		**198,541**	**69,459**			**24,000**	**1,510,320**

Table of Contents

	Option Awards(1)					Stock Awards(2)			
Name	Award Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)(3)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(4)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	E In A M P V Un S U O R V
Diana De Walt	02/01/05	35,416	14,584	48.81	02/01/15				
	10/17/05	3,541	11,459	42.50	10/17/15				
	08/15/06	9,000	18,000	49.29	08/15/13				
	08/15/07		23,000	60.82	08/15/14				
	10/17/05					3,500	220,255		
	08/15/06					5,625	353,981		
	08/15/07					8,000	503,440		
Total		**47,957**	**67,043**			**17,125**	**1,077,676**		
R. William Bowen	08/17/00			13.66	08/17/10				
	09/01/01			12.29	09/01/11				
	06/01/02			12.29	06/01/12				
	08/15/03	1,126		29.53	08/15/13				
	09/13/04	2,972	4,688	36.59	09/13/14				
	10/17/05	13,541	11,459	42.50	10/17/15				
	08/15/06	10,000	20,000	49.29	08/15/13				
	08/15/07		23,000	60.82	08/15/14				
	10/17/05					3,500	220,255		
	08/15/06					5,625	353,981		
	08/15/07					8,000	503,440		

Total	**27,639**	**59,147**		**17,125**	**1,077,676**

(1) Options vest 25% one year from the grant date and 1/48 each month thereafter until fully vested.

(2) For all NEOs other than Mr. Nordhoff, restricted stock awards vest over four years with 25% of the shares subject to eac award vesting on each anniversary of the date of grant, subject to trading window restrictions. For Mr. Nordhoff, deferre issuance restricted stock awards vest over four years with 25% vesting one year from the grant date and the remainder v 1/48 each month thereafter until fully vested.

(3) Prior to November 16, 2006, the exercise price of grants was based on the closing market price of the Company s comm stock on the date immediately prior to the grant date, pursuant to the then-applicable provisions of the Company s equit incentive plans. Effective November 16, 2006, the Company s equity incentive plans were amended and the exercise pr all grants is now based on the closing price of the Company s common stock on the date of grant.

(4) Based on a closing stock price of $62.93 at fiscal-year end (December 31, 2007).

(5) Amounts represent the aggregate fair market value of shares of deferred issuance restricted stock awards that have veste have not yet been issued, based on a closing stock price of $62.93 at fiscal-year end (December 31, 2007). On August 1 2003, and as amended in August 2004, Mr. Nordhoff was granted a restricted stock award under the Company s 2003 I Award Plan for 20,000 shares of common stock that vested as follows: 10,000 of the shares vested on August 15, 2005, 5,000 shares vested on August 15, 2006 and 5,000 shares vested on August 15, 2007 (the 2003 RSA). On June 1, 200 Mr. Nordhoff was granted a restricted stock award under The 2003 Plan of the Company for 20,000 shares of Common that vested as follows: one-fourth (1/4th) of the shares vested one year after June 1, 2004 and the remainder of the share monthly thereafter over the following three years at a rate of 1/48th of the shares each month (the 2004 RSA). On September 10, 2004, the Company converted the 2003 RSA and the 2004 RSA into 40,000 shares of deferred issuance restricted stock awards. The 40,000 shares of deferred issuance restricted stock awards are subject to the same vesting te the 2003 RSA and the 2004 RSA. In addition, Mr. Nordhoff has received 20,000 shares of deferred issuance restricted s awards on each of May 20, 2005, May, 18, 2006 and August 15, 2007, each of which vests as follows: 25% one year fro grant date and 1/48 each month thereafter until fully vested. Subject to vesting in accordance with their terms, the defer issuance restricted stock awards will be issued to Mr. Nordhoff at the earlier of his election or upon the termination of h employment with the Company and in a manner that complies with Section 409A of the Internal Revenue Code, which include, deferring the issuance of such shares for six months after the termination of Mr. Nordhoff s employment. On August 15, 2007, after all shares underlying the 2003 RSA grant were fully vested, the Company issued to Mr. Nordhof 20,000 shares of common stock underlying the 2003 RSA grant.

Table of Contents

Option Exercises and Stock Vested

The following table shows for the fiscal year ended December 31, 2007, certain information regarding option exercises and sto vested during the last fiscal year with respect to the NEOs.

Option Exercises and Stock Vested in Fiscal 2007

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)(1)**	**Number of Shares Acquired on Vesting (#)(2)**	**Value Rea on Vesti ($)(3)**
Henry L. Nordhoff	40,000	2,099,496	22,916	1,01
Herm Rosenman	50,000	2,586,516	3,500	21
Carl W. Hull				
Daniel L. Kacian, Ph.D., M.D.			5,500	34
Diana De Walt	10,000	225,179	3,625	22
R. William Bowen	54,576	1,453,629	3,625	22

(1) The value is the difference between the option exercise price and the market price of the underlying shares multiplied by number of shares covered by the option.

(2) The number of shares of restricted stock for which the restrictions lapsed. For Mr. Nordhoff, these shares are comprised deferred issuance restricted stock awards that have vested, but have not yet been issued (other than shares underlying the RSA grant that vested in 2007, which were issued to Mr. Nordhoff on August 15, 2007, after all such shares had fully ve

(3) The value is the fair market value of the underlying shares on the vesting date multiplied by the number of shares covere the award.

Table of Contents

Post-Employment Compensation

Pension Benefits

We do not provide pension arrangements or post-retirement health coverage for our executives or employees, other than for Mr. Nordhoff pursuant to his employment agreement. Our Chief Executive Officer, vice presidents and other employees are el to participate in our 401(k) plan. In any plan year, we will contribute to each participant a matching contribution equal to 50% first 6% of the participant s compensation that has been contributed to the plan, up to a maximum matching contribution of $6 All of our NEOs other than Mr. Hull participated in our 401(k) plan during fiscal 2007 and received the maximum matching contributions.

Nonqualified Deferred Compensation

The following table shows for the fiscal year ended December 31, 2007, certain information regarding nonqualified deferred compensation benefits for the NEOs. A description of the material terms of the Company s Deferred Compensation Plan is in in the CD&A portion of this proxy statement.

Nonqualified Deferred Compensation for Fiscal 2007

Name	Executive Contributions in Last FY ($)(1)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggr Bala at 12/ ($
Henry L. Nordhoff			75,875		60
Herm Rosenman					
Carl W. Hull					
Daniel L. Kacian, Ph.D. M.D.					
Diana De Walt					
R. William Bowen	26,839		5,793		6

(1) This column includes amounts that were also reported as either Salary or Non-Equity Incentive Plan Awards in th Compensation Table. These amounts have been earned during fiscal year 2007, but payment has been deferred until a date.

Table of Contents

Potential Payments Upon Termination or Change-in-Control

Post-termination benefits for our NEOs are established pursuant to the terms of their individual employment agreements. The following table sets forth the amount of payments to each of our NEOs based on an assumed termination: (i) other than for cau a termination for good reason, in each case on December 31, 2007 (listed below under Severance) and (ii) as a result of a ch control.

Compensation Component	Henry L. Nordhoff	Herm Rosenman	Carl W. Hull	Daniel L. Kacian, Ph.D., M.D.	Diana De Walt	R. Wil Bow
Severance						
Salary	$ 1,354,777	$ 342,095	$ 425,000	$ 384,169	$ 292,095	$ 33
Bonus	1,016,083					
Life insurance	16,470	1,980	814	1,980	668	
Outplacement Services	8,000	8,000	8,000	8,000	8,000	
Medical Reimbursement	(1)	10,536	14,190	5,144	14,190	1
	$ 2,395,330	$ 362,611	$ 448,004	$ 399,293	$ 314,953	$ 35
Change in Control						
Salary	$ 2,032,166	$ 513,142	$ 637,500	$ 576,253	$ 438,142	$ 50
Bonus	1,524,124	128,286	425,000	165,000	109,536	13
Life insurance	16,470	1,980	814	1,980	668	
Outplacement Services	8,000	8,000	8,000	8,000	8,000	
Medical Reimbursement	(1)	10,536	14,190	4,692	14,190	1
Gross-up on excise tax						
	3,580,760	661,944	1,085,504	755,925	570,536	65
Automatic vesting						
Stock options	1,912,566	534,839	1,237,100	871,596	734,083	67
Restricted stock	2,622,167	991,148	943,950	1,510,320	1,077,676	1,07
	$ 8,115,493	$ 2,187,931	$ 3,266,554	$ 3,137,841	$ 2,382,295	$ 2,41

(1) Under the terms of Mr. Nordhoff s employment agreement, summarized below, since Mr. Nordhoff has reached age 65 entitled to receive up to $10,000 per year in medical reimbursement to cover medical and prescription expenses incurred not covered by Medicare, regardless of the reason for the termination of the employment relationship.

Employment Agreements with Executive Officers

The Company entered into an Amended and Restated Employment Agreement with its Chairman and Chief Executive Officer, Henry L. Nordhoff, on March 1, 2007, which specifies the terms and conditions of his employment that were set through the co

of arms-length negotiations with Mr. Nordhoff. The terms and conditions embodied in Mr. Nordhoff s agreement reflect the Company s assessment of what was reasonable and appropriate to ensure Mr. Nordhoff s continued employment in a compet marketplace. The agreement states that Mr. Nordhoff s base salary will be $645,000 for the term of the agreement, which amo be increased annually by the Compensation Committee. The agreement also provides that Mr. Nordhoff s salary may not be decreased during the term of the agreement. The term of the agreement is three years from May 17, 2006.

Table of Contents

Mr. Nordhoff s target bonus will be 75% of his base salary, with the actual amount determined by the Compensation Committ agreement further provides that Mr. Nordhoff may receive an annual grant of options, restricted stock or other equity awards o Company, as determined by the Compensation Committee. The Company is required to provide Mr. Nordhoff with a term life insurance policy providing for payment of $1 million to his designated beneficiaries, a long term disability policy providing fo payment at a rate of not less than $200,000 per annum and accidental death and disability insurance providing for a benefit of $400,000 (airplane) or $200,000 (automobile or walking) should Mr. Nordhoff suffer accidental death or disability during the t Mr. Nordhoff is also eligible pursuant to the agreement to participate in the Company s retirement, stock option, insurance an plans as in effect from time to time. After Mr. Nordhoff ceases employment with the Company for any reason and reaches age (which he did in 2006), the Company will provide for up to $10,000 per year in medical reimbursement to cover medical and prescription expenses incurred but not covered by Medicare.

Mr. Nordhoff may terminate his employment with the Company at any time. In the event Mr. Nordhoff s employment is term for reasons other than cause, or if he terminates his employment for good reason (each as defined below), Mr. Nordhoff severance pursuant to the agreement in the form of 24 months salary continuation at his base salary rate in effect at the time of termination, plus a pro rata portion of his targeted level bonus in the year of the termination and an amount equal to two times targeted level bonus in the year of termination. If Mr. Nordhoff s termination is in connection with a change in control (as def the agreement), he will receive severance in the form of a lump sum payment, payable within ten days of termination, equal to 36 months base salary, and an amount equal to three times his targeted level bonus in the year of the termination. A terminati considered in connection with a change in control if the termination occurs within the period six months before or 18 months a change in control. Upon a termination without cause or for good reason, Mr. Nordhoff will receive the costs of life insurance premiums for 24 months and outplacement services for six months.

The agreement also provides that if it is determined that any payment or distribution of any type to Mr. Nordhoff or for his ben the Company, any of its affiliates, any person who acquires ownership or effective control of the Company or ownership of a substantial portion of its assets (within the meaning of Section 280G of the Code and the regulations thereunder), whether paid payable or distributed or distributable pursuant to the terms of the agreement or otherwise, would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax, then Mr. Nordhoff will be ent to receive an additional gross up payment in an amount calculated to ensure that after Mr. Nordhoff pays all taxes (and any penalties imposed with respect to such taxes), including any excise tax, imposed upon the gross-up payment, Mr. Nordhoff reta amount of the gross-up payment equal to the excise tax imposed upon the total payments made to him. However, if the excise could be avoided by reducing the total payments by $10,000 or less, then the total payments would be reduced to the extent necessary to avoid the excise tax and no gross-up payment would be required under the agreement. The reasons for providing t benefit included, but were not limited to, preserving the intended benefit to Mr. Nordhoff of his existing benefits package, avo any conflict between Mr. Nordhoff s personal financial impact and pursuing any transaction as appropriate for the Company, as providing a competitive package of benefits for Mr. Nordhoff to ensure his continued employment through the completion o potential transaction.

For purposes of the agreement, good reason means any of the following events that are not consented to by Mr. Nordhoff: (removal of Mr. Nordhoff from his position as the Chief Executive Officer of the Company; (ii) a substantial and material dimi in Mr. Nordhoff s duties and responsibilities; (iii) a reduction of Mr. Nordhoff s base salary or target bonus percentage; (iv) t location of Mr. Nordhoff s assignment on behalf of the Company is moved to a location more than 30 miles from its present l (v) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to p the agreement; or (vi) a material breach by the Company of its obligations under the agreement after notice in writing from Mr. Nordhoff and a reasonable opportunity for the Company to cure or substantially mitigate any material adverse effect of su breach. In addition, cause means any of the following events: (i) any act of gross or willful misconduct, fraud, misappropria dishonesty, embezzlement or similar conduct on the part of Mr. Nordhoff; (ii) Mr. Nordhoff s conviction of a felony or any cr involving moral turpitude (which conviction, due to the passage of time or otherwise, is not subject to further appeal); (iii) Mr. Nordhoff s misuse or abuse of alcohol, drugs or controlled

Table of Contents

substances and failure to seek and comply with appropriate treatment; (iv) willful and continued failure by Mr. Nordhoff to substantially perform his duties under the agreement (other than any failure resulting from disability or from termination by Mr. Nordhoff for good reason) as determined by a majority of the Board after written demand from the Board of Directors for substantial performance is delivered to Mr. Nordhoff, and Mr. Nordhoff fails to resume substantial performance of his duties o continuous basis within 30 days of such notice; (v) the death of Mr. Nordhoff; or (vi) Mr. Nordhoff s becoming disabled such is not able to perform his usual duties for the Company for a period in excess of six consecutive calendar months.

The Company also has entered into employment agreements with its other NEOs. Each agreement provides that in the event th executive s employment is terminated for reasons other than cause, or if the executive terminates her or his employment fo reason (each as defined in the agreement), the executive will receive severance in the form of continued compensation, at the executive s salary rate paid at the time of the termination plus costs of life insurance premiums, if any, for a period of 12 mon the termination is due to a change in control (as defined in the agreement), the executive will receive severance in the form of a sum payment, payable within ten days of termination, equal to 18 months of such executive s base salary, and an amount equ times the greater of the executive s targeted level bonus in the year of the termination or the executive s highest discretionary the preceding three years. A termination is considered in connection with a change in control if the termination occurs within t period six months before or 18 months after a change in control.

Each executive also is entitled to receive COBRA benefits for the executive and eligible dependents until the earlier of one yea following the executive s termination date or the first date that the executive is covered under another employer s health bene program providing substantially the same or better benefits, and outplacement services for six months.

The Company provides Mr. Nordhoff with greater compensation and benefits (including post-employment benefits) than that provided to other NEOs to reflect the increased level of responsibility and risk faced by Mr. Nordhoff as the Company s Chai and Chief Executive Officer. Mr. Nordhoff s compensation also differs as a direct result of the Compensation Committee s re peer group compensation data, and reflects the competitive nature of compensation paid to chief executive officers within the p group. The Compensation Committee believes that Mr. Nordhoff s competitive compensation package is important to motivat retain Mr. Nordhoff as a highly-valued chief executive.

Recent Events

On February 8, 2008, the Board of Directors approved the appointment of Carl W. Hull as President and Chief Operating Offic the Company, effective March 1, 2008. Mr. Nordhoff continues to serve as the Company s Chairman and Chief Executive Off connection with Mr. Hull s promotion, the Compensation Committee approved an annual base salary for Mr. Hull of $490,87 effective March 1, 2008. In addition, Mr. Hull s bonus target under the Executive Plan was increased from 50% of base salary of base salary, commencing in fiscal year 2008. These changes have been reflected in Mr. Hull s Amended and Restated Emp Agreement, effective March 1, 2008.

Table of Contents

Director Compensation

The following table shows for the fiscal year ended December 31, 2007, certain information with respect to the compensation o non-employee directors of the Company.

Director Compensation for Fiscal 2007

Name	Fees Earned or Paid in Cash ($)(1)	Restricted Stock Awards ($)(2)	Option Awards ($)(3)	All Other Compensation ($)	To (
John W. Brown	48,118	11,882	308,173		36
Raymond V. Dittamore	48,118	11,882	197,756		25
Mae C. Jemison, M.D.(4)	48,118	11,882	198,880		25
Armin M. Kessler	56,394	23,825	197,756	10,000(5)	28
John C. Martin, Ph.D.(6)			35,490		3
Brian A. McNamee, M.B.B.S.(7)	36,652	8,348	91,717		13
Phillip M. Schneider	50,086	29,914	197,756		27
Abraham D. Sofaer	40,086	29,914	197,756		26

(1) Amounts reflect the aggregate dollar amount of all fees earned or paid in cash for services as a director, including annua retainer fees, committee and/or chairmanship fees, lead independent director fees and meeting fees.

(2) The amounts included in the Restricted Stock Awards column represent director fees that were paid in fiscal 2007 in of restricted stock awards in accordance with the Company s director compensation policy. Under this policy, a minimu twenty percent of each director s annual retainer is paid in the form of restricted common stock of the Company, if shar then available for issuance under an equity incentive plan adopted by the Company. A director, if he or she so elects, ma increase the restricted stock portion above twenty percent. In fiscal 2007, each director received the following number o shares of restricted stock in accordance with this policy: Mr. Brown (213); Mr. Dittamore (213); Ms. Jemison (213); Mr. Kessler (427); Dr. Martin (0); Mr. McNamee (168); Mr. Schneider (536); and Mr. Sofaer (536). The aggregate num shares of restricted stock that have been issued to each of our current directors as of December 31, 2007 are as follows: Mr. Brown (385); Mr. Dittamore (1,285); Mr Kessler (2,577); Dr. Martin (0); Mr. Schneider (4,302); and Mr. Sofaer (3, The Company did not recognize any compensation cost in fiscal 2007 relating to issuances of restricted stock to director during fiscal year 2007 and previous fiscal years determined in accordance with SFAS No. 123(R).

(3) The amounts included in the Option Awards column represent the compensation cost that was recognized by the Com fiscal year 2007 related to grants of options during fiscal year 2007 and previous fiscal years determined in accordance w SFAS No. 123(R). The valuation assumptions used in determining such amounts are described in Note 2 to our consolid financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. For Dr. Marti actual compensation cost recognized by the Company under SFAS. No. 123(R), due to an administrative error which is corrected in fiscal 2008, was $114,989. In May 2007, each director, other than Dr. McNamee who retired as of the 2007 annual meeting of stockholders and Dr. Martin who was not appointed to the Board of Directors until September 2007, received an award of options to acquire 10,000 shares of common stock with a grant date fair value of $180,960 determi accordance with SFAS No. 123(R) (10,000 shares multiplied by $18.096). On October 1, 2007, Dr. Martin was granted options to acquire 20,000 shares of common stock in connection with his appointment to the Board in September 2007,

grant value of $463,040 (20,000 shares multiplied by $23.152), the grant date fair value determined in accordance with SFAS No. 123(R). The aggregate number of options awards issued and outstanding as of December 31, 2007 for each d holding office as of such date was as follows: Mr. Brown (40,000); Mr. Dittamore (40,000); Mr Kessler (50,000); Dr. M (20,000); Mr. Schneider (70,000); and Mr. Sofaer (70,000).

(4) Dr. Jemison resigned as a member of the Board of Directors on November 14, 2007.

Table of Contents

(5) Amount represents payments made to Mr. Kessler s spouse, Ann C. Kessler, Ph.D., for her service as a member of the Company s Scientific Advisory Board, upon which she has served since 2004. Prior to retiring in 1995, Dr. Kessler ser 25 years with Hoffman-La Roche in a number of management positions, including Director of International Project Management with responsibility for global project development decisions.

(6) Dr. Martin was appointed as a member of the Board of Directors on September 20, 2007.

(7) Dr. McNamee resigned as a member of the Board of Directors effective May 31, 2007.

Annual Retainer. Each non-employee director of the Company receives an annual retainer of $60,000, with a minimum of twe percent of the annual retainer paid in the form of restricted common stock of the Company, if shares are then available for issu under an equity incentive plan adopted by the Company. The twenty percent of the annual retainer received in the form of restr common stock must be held until the director retires from the Board. In addition, directors may elect to receive the remainder o annual retainer in the form of restricted common stock of the Company, subject to share availability. In 2007, non-employee directors received an aggregate of 2,306 shares of restricted common stock in lieu of cash compensation. Shares were granted restricted stock awards under the 2003 Plan and the number of shares is determined based on the fair market value on the date grant. The members of the Board of Directors are also eligible for reimbursement for their expenses incurred in attending Boar meetings in accordance with Company policy.

Board Committee Chair and Lead Independent Director Retainers. The Company pays an annual retainer of $20,000 to the Chairman of the Audit Committee and $10,000 to each of the chairs of the Compensation Committee, the Nominating and Cor Governance Committee and the Succession Planning Committee. On May 31, 2007, the Board of Directors elected Mr. Kessle serve as the Company s Lead Independent Director. The Company s Lead Independent Director is paid an annual retainer of In fiscal 2007, the total cash compensation paid to non-employee directors for service on the Board or committees of the Boar $327,572. An additional $109,293 was paid in January 2008 for director services rendered during the fourth quarter of 2007, o which $79,082 was paid in cash and $30,211 was paid in the form of restricted stock.

Equity Compensation. The Company introduced a stock ownership policy for directors in 2006. Under the policy, directors ar expected, within five years of the later of September 28, 2006 or a director s appointment, to acquire and hold Company stock (including restricted shares) equal in value to at least three times the director s annual retainer. The Company believes that thi ownership policy further aligns director and stockholder interests and thereby promotes the objective of increasing stockholder

Upon joining the Board, non-employee directors receive an initial grant of options to purchase 20,000 shares of the Company common stock, if options are then available under an equity incentive plan adopted by the Company. The shares vest over thre with one-third of the shares vesting one year after the date of grant and the remainder of the shares vesting monthly thereafter the following two years of services as a director. The exercise price of the options granted to the non-employee directors is equ the fair market value of the Company s common stock on the date of grant. On October 1, 2007, in connection with Dr. Marti appointment to the Board of Directors on September 20, 2007, the Board of Directors granted Dr. Martin options to purchase 20,000 shares of common stock pursuant to the 2003 Plan at an exercise price of $67.44, the fair market value of the Company common stock as of the grant date. One-third of the shares subject to the option vest and become exercisable on October 1, 200 Thereafter, the remaining shares vest and become exercisable in 24 equal monthly installments.

During the last fiscal year, the Company granted options to purchase 10,000 shares of its common stock to each non-employee director of the Company as of May 31, 2007, as described in footnote 3 to the Director Compensation Table above, for aggrega grants to non-employee directors as of such date of options to purchase 60,000 shares of common stock. Of such amount, 30,0 options were issued under the 2003 Plan and 30,000 options were issued under the 2000 Equity Participation Plan. All options granted at an exercise price per share of $54.09, the fair market value of the Company s common stock on the date of grant. T shares vest over one year at the rate of one-twelfth of the shares vesting monthly.

Table of Contents

RELATED-PERSON TRANSACTIONS POLICY AND PROCEDURES

We review all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. The Company s department is primarily responsible for the development and implementation of processes and controls to obtain information fr directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. To identify related-person transactions in advance, the Company s legal department relies on information supplied by its executive officer directors in the form of questionnaires.

In September 2007, our Board of Directors adopted the Gen-Probe Incorporated Related Person Transactions Policy. Under written policy, a Related-Person Transaction is defined as a transaction, arrangement or relationship (or any series of simila transactions, arrangements or relationships) in which the Company and any Related Person are, were or will be participants in the amount involved exceeds $120,000. Transactions involving compensation for services provided to the Company as an emp consultant or director are not considered Related-Person Transactions under the policy. A Related-Person means any of the following:

A person who is, or at any time since the beginning of the Company s last fiscal year, was, a director or executive offi the Company or a nominee to become a director of the Company;

A security holder known by the Company to be a beneficial owner of more than 5% of any class of the Company s vo securities;

An immediate family member of any of the foregoing, which means any child, stepchild, parent, stepparent, spouse mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of such person, and any pers (other than a tenant or employee) sharing the household of such person; and

A firm, corporation or other entity in which any of the foregoing persons is an executive officer, partner, principal or s control position or in which such person has a 5% or greater beneficial ownership interest.

Under the policy, any proposed transaction that has been identified as a Related-Person Transaction may be consummated or materially amended only with the prior approval of the Audit Committee in accordance with the provisions of the policy. In th it is inappropriate for the Audit Committee to review the transaction for reasons of conflict of interest or otherwise, after takin account possible recusals by Committee members, then the transaction must be approved by the Board of Directors or by an independent Committee of the Board (such body, the Committee).

In the event the Company proposes to enter into, or materially amend, a Related-Person Transaction, management of the Comp must present the transaction to the Committee for review, consideration and approval or ratification. Such presentation must in

all of the parties to the transaction;

the interests, direct or indirect, of any Related Person in the transaction in sufficient detail so as to enable the Committ fully assess such interests;

a description of the purpose of the transaction;

all of the material facts of the proposed Related-Person Transaction, including the proposed aggregate value of such transaction, or, in the case of indebtedness, that amount of principal that would be involved;

the benefits to the Company of the proposed Related-Person Transaction;

if applicable, the availability of other sources of comparable products or services;

an assessment of whether the proposed Related-Person Transaction is on terms that are comparable to the terms availa
or from, as the case may be, an unrelated third party or to employees generally; and

Table of Contents

management s recommendation with respect to the proposed Related-Person Transaction.

The Committee, in approving or rejecting the proposed Related-Person Transaction, must consider all of the facts and circumst deemed relevant by and available to the Committee, including, but not limited to:

the risks, costs and benefits to the Company;

the impact on a director s independence in the event the Related Person is a director, immediate family member of a d or an entity with which a director is affiliated;

the terms of the transaction;

the availability of other sources for comparable services or products; and

the terms available to or from, as the case may be, unrelated third parties or to or from employees generally.

In making its determination, the Committee may approve only those Related-Person Transactions that, in light of known circumstances, are in, or are not inconsistent with, the best interests of the Company and its stockholders, as the Committee determines in the good faith exercise of its discretion.

CERTAIN RELATED PERSON TRANSACTIONS

In September 2000, the Company made a loan in the principal amount of $100,000 to Niall M. Conway, the Company s forme Executive Vice President Operations. The Company made this loan to Mr. Conway in order to assist him with the purchase o initial residence in San Diego, California. This loan was evidenced by a promissory note which matured upon the earlier of (a) sale of his residence, or (b) termination of his employment with the Company. The promissory note was secured by a Deed of in favor of the Company. The loan by its original terms was not subject to interest. Mr. Conway repaid the loan in full in Septe 2007, in connection with his retirement from the Company.

The Company has entered into indemnity agreements with its directors and officers that provide, among other things, that the Company will indemnify such officer or director, under the circumstances and to the extent provided for therein, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or ma made a party by reason of his or her position as a director, officer or other agent of the Company, and otherwise to the fullest e permitted under Delaware law and the Company s Bylaws.

In May 2006, the Company entered into a non-exclusive cross license agreement with a privately-held company that employs Mr. Dittamore s adult son in a non-executive capacity as manager of business development. The privately-held company paid Gen-Probe a $100,000 initial license fee in connection with the agreement and each party will pay royalties to the other in the products are commercialized using the in-licensed technology.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for the Notice of Internet Availability of Proxy Materials, proxy statements and annual reports with respect to two or more stockholde sharing the same address by delivering a single Notice of Internet Availability of Proxy Materials or proxy statement addressed those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are Company stockholders will be householding our proxy materi single Notice of Internet Availability of Proxy Materials or proxy statement will be delivered to multiple stockholders sharing address unless contrary instructions have been received from the affected stockholders. Once you have received notice from yo broker that they will be householding communications to your address, householding will continue until you are notified until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive separate Notice of Internet Availability of Proxy Materials or proxy statement and annual report, please notify your broker, dir your written request to Gen-Probe Incorporated, Attention: Investor Relations, 10210 Genetic Center Drive, San Diego, Califo 92121, or contact the Investor Relations Department at (858) 410-8000. Stockholders who currently receive multiple copies of Notice of Internet Availability of Proxy Materials or proxy statement at their address and would like to request householding communications should contact their broker.

Table of Contents

OTHER MATTERS

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other m
are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such ma
in accordance with their best judgment.

By Order of the Board of Directors

Henry L. Nordhoff
Chairman and Chief Executive Officer

April 1, 2008

A copy of the Company s Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year December 31, 2007 is available without charge upon written request to: Investor Relations, Gen-Probe Incorporated, 10 Genetic Center Drive, San Diego, California 92121.

Table of Contents

GEN-PROBE INCORPORATED
10210 GENETIC CENTER DRIVE
SAN DIEGO, CA 92121-4362

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information until 11:59 P.M. Eastern Time before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtai records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE STOCKHOLDER COMMUNICATIONS

If you would like to reduce the costs incurred by Gen-Probe Incorporated in mailing proxy materials, you can consent to receiv future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic de please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or stockholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meetin Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage- paid envelope we have provided or return it to Gen Incorporated, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

GENPR1 KEEP THIS PORTION FOR YOUR REC

DETACH AND RETURN THIS PORTION

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

GEN-PROBE INCORPORATED

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEMS 1 AND 2.

Vote on Directors

1. To elect three directors for a three-year term to expire at the 2011 Annual Meeting of Stockholders. The present Board of Directors of the Company has nominated and recommends for election as director the following individuals:

The shares represented by this proxy when properly executed will be voted in the manner directed herein by the undersigned Stockholder(s). **If no direction is made, this proxy will be voted FOR the election of each nominee in Item 1 and FOR**

Item 2. If any other matters properly come before the meeting, or if cumulative voting is required, the person named in this proxy will vote in their discretion.

Please sign your name exactly as it appears hereon. When signing as attorney, executor, administrator, trustee or guardian, please add your title as such. When signing as joint tenants, all parties in the joint tenancy must sign. If a signer is a corporation, please sign in full corporate name by duly authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

Table of Contents

Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting:
The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

GEN-PROBE INCORPORATED
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF STOCKHOLDERS
MAY 15, 2008

The stockholder(s) hereby appoint(s) Henry L. Nordhoff and Herm Rosenman, or either of them, as proxies, each with the pow
appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all o
shares of Common Stock of Gen-Probe Incorporated that the stockholder(s) is/are entitled to vote at the Annual Meeting of
Stockholders to be held at 10:00 a.m. local time on Thursday, May 15, 2008, at the corporate headquarters of Gen-Probe
Incorporated, 10210 Genetic Center Drive, San Diego, California 92121, and any adjournment or postponement thereof. For
participants in the Gen-Probe Incorporated Employee Stock Purchase Plan, this proxy also serves as voting instructions to the
administrator to vote the shares of common stock beneficially owned by plan participants.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE STOCKHOLDER(S).
NO SUCH DIRECTIONS ARE MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINE
LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS AND FOR EACH PROPOSAL.
PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPL
ENVELOPE.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE