

TARGETED GENETICS CORP /WA/

Form DEF 14A

April 14, 2005

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

**SCHEDULE 14A
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

TARGETED GENETICS CORPORATION

(Name of Registrant as Specified in Its Charter)
N/A

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(1) Amount Previously Paid: _____

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(4) Date Filed: _____

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April 15, 2005

Dear Fellow Shareholder:

You are cordially invited to attend Targeted Genetics Corporation's 2005 Annual Meeting of Shareholders. The annual meeting will be held on Thursday, May 26, 2005, at 9:00 a.m. local time, at the Washington Athletic Club, 1325 Sixth Avenue, Seattle, Washington.

At the annual meeting, you will be asked to:

elect two Class 2 directors to Targeted Genetics' Board of Directors;

amend our Amended and Restated Articles of Incorporation to increase the authorized common stock from 120,000,000 shares to 180,000,000 shares; and

ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005.

The Board of Directors recommends that you vote FOR election of the nominees for director, FOR the amendment of the Articles of Incorporation, and FOR ratification of the appointment of the independent registered public accounting firm.

You should read carefully the accompanying Notice of Annual Meeting of Shareholders and proxy statement for additional information.

Whether or not you plan to attend the annual meeting, please read the enclosed proxy statement. Then please mark your votes on the enclosed proxy card, sign and date the proxy card and return it promptly in the enclosed postage-prepaid envelope. Your shares will be voted in accordance with the instructions you give on your proxy card. If you attend the annual meeting, you may vote in person if you wish, even if you previously returned your proxy card. Your prompt cooperation is greatly appreciated.

Sincerely,

H. Stewart Parker
President and Chief Executive Officer

PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD.

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TARGETED GENETICS CORPORATION

1100 Olive Way, Suite 100
Seattle, Washington 98101

**NOTICE OF THE 2005 ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 26, 2005**

TO THE SHAREHOLDERS OF TARGETED GENETICS CORPORATION:

We will hold the 2005 Annual Meeting of Shareholders of Targeted Genetics Corporation on Thursday, May 26, 2005, at 9:00 a.m. local time, at the Washington Athletic Club, 1325 Sixth Avenue, Seattle, Washington, for the following purposes, as more fully described in the proxy statement accompanying this notice:

to elect two Class 2 directors to the Board of Directors;

to amend our Amended and Restated Articles of Incorporation to increase the authorized common stock from 120,000,000 shares to 180,000,000 shares;

to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005; and

to transact such other business as may properly come before the annual meeting or any adjournments or postponements of the annual meeting.

At the annual meeting, we will also report on our 2004 business results and other matters of interest to our shareholders.

The Board of Directors has fixed the close of business on March 25, 2005 as the record date for the annual meeting. Only shareholders of record of common stock on the record date are entitled to notice of and to vote at the annual meeting and any adjournments or postponements of the annual meeting.

The directors elected will be the two candidates receiving the greatest number of votes cast, in person or by proxy, at the annual meeting. The affirmative vote of the holders of shares representing a majority of our outstanding common stock is required to amend the Amended and Restated Articles of Incorporation. The affirmative vote of the holders of shares representing a majority of the votes cast at the annual meeting, in person or by proxy, is required to ratify the appointment of our independent registered public accounting firm.

You are cordially invited to attend the annual meeting. To ensure your representation at the annual meeting, however, you should complete, sign, date and return the enclosed proxy card as promptly as possible in the enclosed postage-prepaid envelope. Your shares will be voted in accordance with the instructions you give on your proxy card. You may revoke your proxy at any time before it is voted by signing and returning a proxy for the same shares bearing a later date, by filing a written revocation with the secretary of Targeted Genetics or by attending the annual meeting and voting in person.

The approximate date of mailing this proxy statement and the accompanying proxy card is April 22, 2005.

By order of the Board of Directors,

Todd E. Simpson
Secretary

Seattle, Washington
April 15, 2005

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TARGETED GENETICS CORPORATION

PROXY STATEMENT

This proxy statement is being furnished to holders of shares of common stock of Targeted Genetics Corporation, a Washington corporation, in connection with the solicitation of proxies by our Board of Directors for use at our 2005 Annual Meeting of Shareholders and at any adjournments or postponements of the annual meeting. We will hold the annual meeting on Thursday, May 26, 2005, at the Washington Athletic Club, 1325 Sixth Avenue, Seattle, Washington, at 9:00 a.m. local time. The approximate date of mailing of this proxy statement and the accompanying proxy card is April 22, 2005.

Matters to Be Considered at the Annual Meeting

At the annual meeting, shareholders of record of common stock of Targeted Genetics as of the close of business on March 25, 2005 will consider and vote on:

the election of two Class 2 directors to the Board of Directors, to hold office until the third annual meeting of shareholders following their election or until their successors are elected and qualified;

the amendment of our Amended and Restated Articles of Incorporation, or the Restated Articles, to increase the authorized common stock from 120,000,000 shares to 180,000,000 shares;

the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005; and

such other business as may properly come before the annual meeting or any adjournments or postponements of the annual meeting.

The Board of Directors recommends that our shareholders vote FOR election of the nominees for director, FOR amendment of the Restated Articles, and FOR ratification of the appointment of the independent registered public accounting firm.

Record Date; Outstanding Shares Entitled to Vote

Only shareholders of record at the close of business on the record date, March 25, 2005, are entitled to notice of and to vote at the annual meeting. As of the record date, 85,628,244 shares of our common stock were issued and outstanding.

Quorum; Voting

We have one class of voting securities outstanding, which is designated as common stock, and each share of common stock is entitled to one vote. The presence, in person or by proxy, of the holders of a majority of the shares of common stock entitled to vote constitutes a quorum for the transaction of business at the annual meeting.

The directors elected at the annual meeting will be the two candidates receiving the greatest number of votes cast, in person or by proxy, at the annual meeting. Holders of common stock are not entitled to cumulate votes in the election of directors.

The affirmative vote of the holders of shares representing a majority of our outstanding common stock is required to amend the Restated Articles.

The affirmative vote of the holders of shares representing a majority of the votes cast at the annual meeting, in person or by proxy, is required to ratify the appointment of the independent registered public accounting firm.

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Any broker, bank, nominee, fiduciary or other custodian who holds shares of our common stock for the account of a customer who is the beneficial owner of those shares, and who does not receive specific instructions from the customer on how to vote, has the power to vote those shares at its discretion in the election of directors and for other routine matters for which it has not received voting instructions. A broker non-vote occurs when the custodian may not vote, or give a proxy to vote, a customer's shares because the customer did not provide voting instructions with respect to a non-routine matter on which the custodian does not have discretionary authority to vote. Because custodians will have discretionary voting authority with respect to the election of directors and the ratification of the appointment of the independent registered public accounting firm, there will be no broker non-votes with respect to these proposals. With respect to the proposal to amend our Restated Articles, broker non-votes will have the same effect as votes against that proposal because approval of that proposal requires the affirmative vote of holders of shares representing a majority of our outstanding common stock.

An abstention occurs when a shareholder affirmatively instructs the vote to be withheld (by checking the withhold authority to vote box on the proxy card) or when a shareholder who has not given a proxy is present at the meeting but does not cast a ballot. Shares of our common stock subject to abstentions are treated as present at the annual meeting and will therefore be counted toward establishing the presence of a quorum. Abstentions are not treated as votes cast, however, so abstentions will have no effect on the election of directors, which outcome is determined by a plurality of the votes cast, or on the proposal to ratify the appointment of the independent registered public accounting firm, which outcome is determined by a majority of the votes cast. With respect to the proposal to amend our Restated Articles, abstentions will have the same effect as votes against that proposal because approval of that proposal requires the affirmative vote of holders of shares representing a majority of our outstanding common stock.

As of the record date, our directors and executive officers and their affiliates beneficially owned approximately 4.2% of the outstanding shares of our common stock, as beneficial ownership is defined under federal securities laws. Each of our directors and executive officers plans to vote or direct the vote of all shares of common stock over which he or she has voting control in favor of the election of the nominees for director, the amendment of the Restated Articles and ratification of the appointment of the independent registered public accounting firm.

Proxies

Shares of common stock represented by properly executed proxies that we receive at or before the annual meeting that have not been revoked will be voted at the annual meeting in accordance with the instructions contained on the proxy card. Shares of common stock represented by properly executed proxy cards for which no instruction is given will be voted for the election of the nominees for director, for amendment of the Restated Articles and for ratification of the independent registered public accounting firm.

To ensure that your shares are voted, please complete, sign, date and return promptly the enclosed proxy card in the postage-prepaid envelope we have provided. You may revoke a proxy by:

submitting a later-dated proxy for the same shares at any time before the vote;

delivering written notice of revocation to the Secretary of Targeted Genetics at any time before the vote; or

attending the annual meeting and voting in person. Merely attending the annual meeting will not in and of itself revoke a proxy.

If the annual meeting is postponed or adjourned for any reason, at any subsequent reconvening of the annual meeting all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the annual meeting (except for any proxies that have at that time

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effectively been revoked or withdrawn), even if the proxies had been effectively voted on the same or any other matter at a previous meeting.

Proxy Solicitation

The enclosed proxy is solicited on behalf of our Board of Directors. We will bear the cost of soliciting proxies from our shareholders. In addition to solicitation by mail, our directors, officers and employees may solicit proxies by telephone, facsimile, e-mail, in person or otherwise. We will not additionally compensate our directors, officers and employees for this solicitation but will reimburse them for the out-of-pocket expenses that they incur. We will reimburse persons who hold our common stock of record but not beneficially, such as brokerage firms, nominees, fiduciaries and other custodians, for the reasonable expenses they incur in forwarding solicitation materials to, and requesting authority for the exercise of proxies from, the persons for whom they hold the shares.

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**PROPOSAL ONE
ELECTION OF DIRECTORS**

**The Board of Directors recommends that you vote for election
of the nominees for director.**

Our bylaws provide that the Board of Directors shall be composed of not less than one nor more than nine directors. At present, we have seven directors, each of whom is placed into one of three classes such that, to the extent possible, there is an equal number of directors in each class. Every director subsequently elected to the Board of Directors generally holds office for a three-year term and until his or her successor is elected and qualified. However, if a director resigns from the Board of Directors before his or her term expires, the director elected or appointed to fill the resulting vacancy may be designated to a class such that he or she initially must be elected to a shorter term.

At the annual meeting, two Class 2 directors are to be elected, each to hold office for a three-year term or until his successor is elected and qualified. Joseph M. Davie and Louis P. Lacasse have been nominated for election to the Board of Directors as Class 2 directors. Information is provided below with respect to these nominees and our continuing directors.

Unless they receive contrary instructions, the persons named as proxies on the enclosed proxy card intend to cast votes represented by properly executed proxy cards for the election of these nominees. If either nominee should become unavailable for any reason, the persons named as proxies intend to cast votes for election of a substitute nominee designated by the Board of Directors. The Board of Directors has no reason to believe that either of the nominees named will be unable to serve if elected.

If a quorum is present, the two nominees receiving the highest number of votes will be elected to serve as Class 2 directors.

Nominees for Election as Class 2 Directors Terms to Expire in 2008

Joseph M. Davie (age 65) has served as a director of Targeted Genetics since October 2000. Dr. Davie was employed by Biogen, Inc., a biopharmaceutical company, from 1993 to 2000, most recently serving as senior vice president, research. From 1987 to 1993, Dr. Davie held several positions at G.D. Searle & Co., including president of research and development and senior vice president of science and technology. Dr. Davie was professor and head of the Department of Microbiology and Immunology at Washington University School of Medicine from 1975 to 1987. He currently serves as a director of Curis, Inc., Inflazyme Pharmaceuticals, Ltd. and several privately held companies. Dr. Davie received his A.B., M.A. and Ph.D. in bacteriology from Indiana University and his M.D. from Washington University School of Medicine.

Louis P. Lacasse (age 48) has served as a director of Targeted Genetics since May 1998. Mr. Lacasse has served as president of GeneChem Management, Inc. and as manager of GeneChem Technologies Venture Fund L.P. and GeneChem Therapeutics Venture Fund, L.P., two venture capital funds, since May 1997. He served as vice president (Healthcare and Biotechnology) of SOFINOV, an investment subsidiary of Caisse de depot et placement du Quebec, from July 1987 to May 1997. Mr. Lacasse previously served as a director of several private and public companies, including Biochem Pharma Inc. and Axcan Pharma, Inc., and currently serves as a director of several privately held biotechnology companies. Mr. Lacasse received his Bachelor's degree from the École des Hautes Études Commerciales and his M.B.A. from McGill University.

Continuing Class 1 Directors Terms Expire in 2007

Jack L. Bowman (age 72) has served as a director of Targeted Genetics since March 1997. From March 2003 to May 2004, Mr. Bowman served as executive chairman and chairman of the board of NeoRx Corporation and as its chief executive officer from June 2003 to May 2004. From 1987 to

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January 1994, Mr. Bowman was a company group chairman at Johnson & Johnson, with primary responsibility for a group of companies in the diagnostic, blood glucose monitoring and pharmaceutical businesses. From 1980 to 1987, he held various positions at American Cyanamid Company, a pharmaceutical company, most recently as executive vice president. Mr. Bowman previously served as a member of the board of trustees of The Johns Hopkins University and currently serves as a director of Celgene Corporation and AVI Biotherapeutics, Inc.

Jeremy L. Curnock Cook (age 55) has served as a director of Targeted Genetics since July 1995 and as chairman of the board since February 1998. Mr. Cook founded the International Biochemicals Group in 1975, which was sold to Royal Dutch Shell in 1985, serving as managing director until 1987. From 1987 to 2000, he was a director of Rothschild Asset Management Limited and was responsible for the Rothschild Bioscience Unit. He currently serves as chairman of the board of International Bioscience Managers Ltd. and as a director of SIRNA Therapeutics Inc., Inflazyme Pharmaceuticals, Ltd. and several public and privately held companies outside the United States. Mr. Cook previously served as a director of Cell Therapeutics, Inc. and Creative BioMolecules, Inc. Mr. Cook received his M.A. in Natural Sciences from Trinity College, Dublin.

Continuing Class 3 Directors Terms Expire in 2006

Nelson L. Levy (age 63) has served as a director of Targeted Genetics since May 1999. Since 1993, Dr. Levy has served as chairman of the board and chief executive officer of CoreTechs Corporation, a privately held company that focuses on the development and marketing of early-stage technologies. He served as president of Fujisawa Pharmaceutical Company, the U.S. subsidiary of Japan's third-largest pharmaceutical company, from 1992 to 1993, as chief executive officer of CoreTechs from 1984 to 1992 and as vice president for pharmaceutical research at Abbott Laboratories from 1981 to 1984. Dr. Levy served as a tenured professor of microbiology and immunology at Duke University from 1970 to 1981. He currently serves as a director of several privately held companies and on the scientific advisory boards of several public and privately held biotechnology and pharmaceutical companies. Dr. Levy received his B.A. from Yale University, his M.D. from Columbia University and his Ph.D. from Duke University.

H. Stewart Parker (age 49) managed the formation of Targeted Genetics as a wholly owned subsidiary of Immunex Corporation (Immunex was subsequently acquired by Amgen) and has served as president, chief executive officer and a director of Targeted Genetics since our inception in 1989. She served in various capacities at Immunex from August 1981 through December 1991, most recently as vice president, corporate development. Ms. Parker also served as president and a director of Receptech Corporation, a company formed by Immunex in 1989 to accelerate the development of soluble cytokine receptor products, from February 1991 to January 1993. She serves on the board of directors and the executive committee of BIO, the primary trade organization for the biotechnology industry, and as a director of several privately held companies. Ms. Parker received her B.A. and M.B.A. from the University of Washington.

Mark H. Richmond (age 74) has served as a director of Targeted Genetics since July 1996. Since 1996, Dr. Richmond has served as a business consultant and a research fellow of the School of Public Policy, University College London. From January 1993 until his retirement in February 1996, he served as director of research at Glaxo Wellcome plc (previously Glaxo plc), a pharmaceutical company. From October 1990 to December 1993, he served as chairman of the Science and Engineering Research Council in London. Dr. Richmond currently serves as a director of Genentech, Inc., OSI Pharmaceuticals and several privately held biotechnology companies. He received his Ph.D. and D. Sc. from Cambridge University, England.

Director Compensation

Directors who are employees of Targeted Genetics do not receive any fees for their services as directors. We pay directors who are not employees of Targeted Genetics an annual retainer of \$10,000

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(\$15,000 in the case of the chairman of the Board of Directors). We pay directors who are not employees of Targeted Genetics and members of the committees of the Board of Directors the following annual retainers:

Audit Committee \$4,000 (\$5,000 in the case of the chairman of the committee);

Compensation Committee \$3,000 (\$4,000 in the case of the chairman of the committee); and

All other board committees \$1,000 (\$2,000 in the case of the chairman of each of those committees).

We pay directors who are not employees of Targeted Genetics attendance fees of \$1,000 per Board meeting (\$1,500 in the case of the chairman) and \$500 for each committee meeting (\$750 in the case of a committee chairman). We also reimburse our directors for travel expenses that they incur in attending meetings.

Our stock option grant program for nonemployee directors provides that each elected or appointed director who is not otherwise an employee of Targeted Genetics is eligible to receive stock option grants under our 1999 Stock Option Plan, including an initial grant of a non-qualified stock option, or NSO, to purchase 10,000 shares of our common stock and an annual grant, given every year thereafter, immediately following our annual meeting, of a NSO to purchase 20,000 shares of our common stock. Initial NSOs granted to nonemployee directors vest over a three-year period and the annual NSOs granted to nonemployee directors vested over a one-year period.

Director Nominations Process

Our Board of Directors has adopted a charter of the Nominating and Corporate Governance Committee, or Nominating Committee, that describes the process by which candidates for possible inclusion in our recommended slate of director nominees are selected. The Board of Directors may amend this charter at any time, in which case the most current version will be available on our web site at <http://www.targetedgenetics.com>. Under its charter, the Nominating Committee is responsible for developing criteria for identifying and evaluating nominees for the Board of Directors.

Process for Identifying Candidates

Our Nominating Committee has two primary methods for identifying candidates beyond those proposed by our shareholders. On a periodic basis, the Nominating Committee may solicit ideas for possible candidates from a number of sources, including members of the Board of Directors, senior-level management, individuals personally known to the members of the Board of Directors and research, including publications, databases and Internet searches. In addition, the Nominating Committee may from time to time use its authority under its charter to retain a search firm to identify candidates.

Nomination Right of Shareholders

In accordance with our bylaws and applicable law, recommendations for nominations for the election of directors for consideration by the Nominating Committee may be made by any shareholder of record entitled to vote for the election of directors at shareholder meetings held for such purpose. The requirements a shareholder must follow for recommending persons for consideration by the Nominating Committee for election as directors are set forth in our bylaws and the section of this proxy statement entitled Shareholders Proposals for the 2006 Annual Meeting.

Subject to the superior rights, if any, of the holders of any class or series of stock having a preference over our common stock that we may issue in the future, if a shareholder complies with the procedures for recommending persons for consideration by the Nominating Committee for election as directors, the Nominating Committee will conduct the appropriate and necessary inquiries into the

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backgrounds, qualifications and skills of the shareholder-recommended candidates and, in the exercise of the Nominating Committee's independent judgment in accordance with the policies and procedures adopted in the Nominating Committee charter, will determine whether to recommend the shareholder-recommended candidates to the Board of Directors for inclusion in the list of candidates for election as directors at the next shareholder meetings held for such purpose.

Evaluation of Candidates

The Nominating Committee will consider all candidates identified through the processes described above, and will evaluate each of them, including incumbents, based on the same criteria. If, based on the Nominating Committee's initial evaluation, a candidate continues to be of interest, the Nominating Committee will generally conduct interviews and arrange for appropriate background and reference checks.

Director Independence and Other Matters

The Board of Directors has determined each of the following directors to be an independent director as such term is defined in Marketplace Rule 4200(a)(15) of the National Association of Securities Dealers, or NASD: Jack L. Bowman, Jeremy L. Curnock Cook, Joseph M. Davie, Louis P. Lacasse, Nelson L. Levy and Mark H. Richmond.

The Board of Directors has also determined that each member of the three committees of the Board of Directors meets the independence requirements applicable to those committees prescribed by the NASD and the Securities and Exchange Commission, or SEC.

Committees of the Board of Directors and Meetings

The committees of our Board of Directors are an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The functions performed by these committees are as follows:

Audit Committee. The Audit Committee operates under a written charter adopted by the Board of Directors. The Audit Committee has general responsibility for monitoring the finance, accounting, audit, review and attest activities and internal controls of Targeted Genetics. In addition, the Audit Committee chooses the certified public accountants to be appointed as the independent registered public accounting firm of Targeted Genetics, and ensures that such firm understands that it shall be ultimately accountable to and report to the Audit Committee. The Audit Committee has the sole authority to retain, evaluate, terminate and replace the independent registered public accounting firm. The members of the Audit Committee are Louis P. Lacasse (chairman), Jeremy L. Curnock Cook and Nelson L. Levy. The Board of Directors has determined that Messrs. Curnock Cook and Lacasse and Dr. Levy are audit committee financial experts, as such term is defined in Item 401(h) of Regulation S-K promulgated by the SEC, and that each of the members of the Audit Committee is independent in accordance with applicable NASDAQ listing standards and the rules and regulations of the SEC. A listing of the relevant experience that qualify Messrs. Curnock Cook and Lacasse and Dr. Levy as audit committee financial experts can be found in their biographical information contained at the beginning of Proposal One Election of Directors. The Audit Committee held four meetings during 2004. The report of the Audit Committee is set forth below.

Compensation Committee. The Compensation Committee operates under a written charter adopted by the Board of Directors. The Compensation Committee establishes salaries, incentives, option grants and other forms of compensation for our directors and executive officers. The Compensation Committee also administers our various incentive compensation and benefit plans, including our stock option plans, and recommends the establishment of policies relating to our incentive compensation and benefit plans. The members of this committee are Jack L. Bowman (chairman), Joseph M. Davie and Mark H. Richmond, each of whom are independent directors. The

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Compensation Committee held three meetings during 2004. The report of the Compensation Committee is set forth below.

Nominating and Corporate Governance Committee. The Nominating Committee operates under a written charter adopted by the Board of Directors. The Nominating Committee ensures that the Board of Directors is appropriately constituted to meet its fiduciary obligations to the shareholders and Targeted Genetics, monitors and safeguards the independence of the Board of Directors and provides a leadership role in shaping the corporate governance of Targeted Genetics. The members of this committee are Nelson L. Levy (chairman), Jeremy L. Curnock Cook and Louis P. Lacasse. The Nominating Committee held one meeting in 2004.

During 2004, there were four meetings of our Board of Directors. Each of our directors attended 75% or more of the meetings of the Board of Directors and the meetings held by all committees on which he or she served. All of our directors attended our 2004 annual meeting of shareholders.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended December 31, 2004, Mr. Bowman, Mr. Davie and Mr. Richmond served on the Compensation Committee of the Board of Directors. No member of the Compensation Committee was an officer or employee of Targeted Genetics. None of our executive officers served during the year ended December 31, 2004, as a member of the compensation committee or board of directors of any entity that has an executive officer serving as a member of our Compensation Committee or Board of Directors.

Table of Contents**EXECUTIVE OFFICERS**

The following table lists the executive officers of Targeted Genetics, who will serve in the capacities noted until their successors are duly appointed and qualified.

| Name | Age | Position |
|------------------------|------------|--|
| H. Stewart Parker | 49 | President, Chief Executive Officer and Director |
| Barrie J. Carter, Ph.D | 60 | Executive Vice President and Chief Scientific Officer |
| Todd E. Simpson | 44 | Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary |

H. Stewart Parker's biography is contained in the section of this proxy statement entitled "Proposal One Continuing Class 3 Directors - Terms Expire in 2006."

Barrie J. Carter has served as an executive vice president of Targeted Genetics since August 1992. Dr. Carter has served as chief scientific officer since January 2001 and was director of research and development from August 1992 to December 2000. Before joining Targeted Genetics he was employed for 22 years by the National Institutes of Health, or NIH. He served as chief of the laboratory of molecular and cellular biology in the National Institute for Diabetes and Digestive and Kidney Diseases from 1982 to 1992. From 1995 to 2000, he was an affiliate professor of medicine at the University of Washington Medical School. Dr. Carter received his B.Sc. (Honors) from the University of Otago, Dunedin, New Zealand and his Ph.D. in biochemistry from the University of Otago Medical School. He then spent a period of postdoctoral training at the Imperial Cancer Research Fund Laboratories in London before joining the NIH. His long-term research interests are in the molecular biology of viruses, development of AAV vectors and gene therapy. Dr. Carter serves on the editorial board of *Human Gene Therapy* and *Virology*, and as an associate editor of *Molecular Therapy*.

Todd E. Simpson has served as vice president, finance and administration, chief financial officer, treasurer and secretary of Targeted Genetics since October 2001. From January 1996 to October 2001, Mr. Simpson served as vice president, finance and administration and chief financial officer of Aastron Biosciences, Inc., a public life science company focused on the development of cell-based therapeutics. From August 1995 to December 1995, he served as treasurer of Integra LifeSciences Corporation, a public biotechnology company, which acquired Telios Pharmaceuticals, Inc. in August 1995. From 1992 until its acquisition by Integra, he served as vice president of finance and chief financial officer of Telios and in various other finance-related positions. From 1983 to 1992, Mr. Simpson practiced public accounting with the firm of Ernst & Young LLP. Mr. Simpson is a certified public accountant. He received his B.S. in accounting and computer science from Oregon State University.

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The following table lists all compensation earned during 2004, 2003 and 2002 by our chief executive officer and our other executive officers whose salary and bonus exceeded \$100,000 for 2004, referred to collectively as our Named Executive Officers :

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation | | Long-Term Compensation Awards | All Other Compensation(\$) |
|---|------|---------------------|-----------|--|-------------------------------|
| | | Salary(\$) | Bonus(\$) | Securities Underlying Options(#) | |
| H. Stewart Parker(1) President and Chief Executive Officer | 2004 | \$ 398,000 | \$ 81,969 | 200,000 | \$ 3,876 |
| | 2003 | 364,000 | 191,100 | 100,000 | 565 |
| | 2002 | 364,000 | | 130,000 | 3,290 |
| Barrie J. Carter, Ph.D.(2) Executive Vice President and Chief Scientific Officer | 2004 | 265,000 | 38,984 | 150,000 | 4,953 |
| | 2003 | 243,320 | 90,870 | 70,000 | 1,531 |
| | 2002 | 243,320 | | 50,000 | 3,694 |
| Todd E. Simpson(3) Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary | 2004 | 240,000 | 35,306 | 150,000 | 26,478 |
| | 2003 | 210,000 | 78,750 | 70,000 | 24,192 |
| | 2002 | 210,000 | | 12,500 | 103,405 |

(1) All Other Compensation for Ms. Parker consists of matching contributions to a 401(k) savings plan of \$3,250 in 2004, zero in 2003 and \$2,750 in 2002; and excess life insurance premiums of \$626 in 2004, \$565 in 2003 and \$540 in 2002.

(2) All Other Compensation for Dr. Carter consists of matching contributions to a 401(k) savings plan of \$3,250 in 2004, zero in 2003 and \$2,750 in 2002; and excess life insurance premiums of \$1,703 in 2004, \$1,531 in 2003 and \$944 in 2002.

(3) All Other Compensation for Mr. Simpson consists of relocation costs of \$75,463 in 2002; forgiveness of an installment payment and interest on a relocation assistance loan of \$23,000 in 2004, \$24,000 in 2003 and \$25,000 in 2002 in accordance with the terms of the loan; matching contributions to a 401(k) savings plan of \$3,250 in 2004, zero in 2003 and \$2,750 in 2002; and excess life insurance premiums of \$228 in 2004 and \$192 in 2003 and 2002.

Table of Contents**Option Grants in 2004**

The following table provides information regarding options granted to the Named Executive Officers during 2004:

Option Grants in Last Fiscal Year**Individual Grants**

| Name | Number of Shares Underlying Options Granted(1) | Percent of Total Options Granted to Employees in Last Fiscal Year(2) | Exercise Price (\$/Share) | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3) | |
|--|--|--|---------------------------|-----------------|---|------------|
| | | | | | 5%(\$) | 10%(\$) |
| H. Stewart Parker Barrie J. Carter, Ph.D. | 200,000 | 8.3% | \$ 1.31 | 5/20/2014 | \$ 164,770 | \$ 417,561 |
| Todd E. Simpson | 150,000 | 6.3% | 1.31 | 5/20/2014 | 123,578 | 313,170 |
| | 150,000 | 6.3% | 1.31 | 5/20/2014 | 123,578 | 313,170 |

(1) Options are granted at the fair market value on the date of grant and vest over four years, with 6.25% of each grant becoming exercisable each quarter, beginning three months after the date of grant. Specified changes in control of Targeted Genetics can trigger accelerated vesting of stock options and rights to related payments.

(2) We granted our employees options to purchase a total of 2,397,950 shares of our common stock. In addition in 2004 we granted our non-employee directors options to purchase 120,000 shares of our common stock.

(3) The dollar amounts set forth as potential realizable values are calculated based on assumed rates of appreciation of 5% and 10% and are not intended to forecast future appreciation. The Named Executive Officers will realize no value if our stock price does not exceed the exercise price of the options.

Option Exercises in 2004 and Fiscal Year-End Option Values

The following table provides information regarding unexercised options held as of December 31, 2004 by the Named Executive Officers. No options were exercised by the Named Executive Officers during 2004.

Aggregated Option Exercises in 2004 and Fiscal Year-End Option Values

| Name | Total Number of Securities Underlying Unexercised Options at Fiscal Year-End(#) | | Value of Unexercised In-the-Money Options at Fiscal Year-End(\$)(1) | |
|-------------------------|---|---------------|---|---------------|
| | Exercisable | Unexercisable | Exercisable | Unexercisable |
| H. Stewart Parker | 790,069 | 202,475 | \$ 118,000 | \$ 42,000 |
| Barrie J. Carter, Ph.D. | 418,679 | 150,813 | 82,900 | 31,500 |
| Todd E. Simpson | 228,593 | 178,907 | 82,900 | 31,500 |

(1) The value of unexercised options is calculated based on the closing share price of our common stock on the NASDAQ SmallCap Market on December 31, 2004, which was \$1.55 per share, net of the option exercise price.

Change in Control Arrangements

Senior Management Employment Agreements. In October 1996, we entered into Senior Management Employment Agreements with both H. Stewart Parker and Barrie J. Carter. We entered into a substantially similar agreement with Todd E. Simpson on October 1, 2001. These agreements

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provide that, following a change in control (as that term is defined in the agreements), each executive who continues to be employed by the surviving company will be entitled to receive an annual base salary that is not less than his or her salary in effect before the change in control and an annual bonus at least equal to the average of his or her annual bonuses for the three prior years. In addition, each of these executives will be entitled to insurance coverage and other employee benefits no less favorable than their benefits in effect before the change in control. If during the two-year period after a change in control the employment of any of these executives is terminated for any reason other than death, disability or cause or the executive terminates his or her employment for good reason (as these terms are defined in the agreements), the terminated executive will be entitled to specified additional benefits, including a lump-sum payment equal to one and one-half times (or, in the case of Ms. Parker, two times) the sum of (a) that executive's annual salary before the change in control (or on the date of termination, if the executive's salary is higher on that date) and (b) a percentage of that salary equal to the executive's percentage bonus for the year before the change in control. If no such bonus was paid or if the bonus cannot be determined, the applicable percentage will be 10%. In addition, the terminated executive will be entitled to be paid an amount sufficient to compensate the executive for any excise tax, including interest and penalties, imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, and will be entitled to continuation of life insurance, disability, health, dental and other similar employee benefits for one year after termination. The Senior Management Employment Agreements generally may be terminated with 30 days' prior written notice, but we will remain liable for any obligations arising before the termination.

Option Plans. Our Restated 1992 Stock Option Plan and our 1999 Stock Option Plan each contain provisions that could result in the accelerated vesting of options granted under those plans in the event of a change in control, as that term is defined in each of the plans. The vesting of options granted to our executive officers under these plans may accelerate in the event of a change in control.

Agreements with Management

We loaned Mr. Simpson \$100,000 under a promissory note dated October 31, 2001 to assist in his relocation. Interest on the principal balance accrues at a rate of five percent per year, compounded annually, over a term of four years. Repayment of the principal amount and accrued interest will be due in five equal installments over the term of the note, with the first four installments payable annually and the fifth installment due at the same time as the fourth installment. If, however, on the date an installment becomes due, Mr. Simpson is employed by us, was terminated without cause or has terminated his employment with good reason, as those terms are defined in Mr. Simpson's Senior Management Employment Agreement, Mr. Simpson will not be obligated to pay that installment. We forgave outstanding principal and accrued interest of \$23,000 in 2004, \$24,000 in 2003 and \$25,000 in 2002.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of our Board of Directors currently consists of Jack L. Bowman, Joseph M. Davie and Mark H. Richmond, all of whom are independent directors as defined under NASD rules. The Compensation Committee is responsible for our executive compensation program and for administering our incentive compensation and benefit plans. On an annual basis, the Compensation Committee evaluates the performance and compensation of our executive officers.

Our executive compensation philosophy is to pay competitively to:

attract qualified executive personnel capable of enabling Targeted Genetics to achieve its business objectives;

retain and motivate these executives to achieve superior performance;

link individual compensation to individual and company performance; and

align executives' financial interest with those of our shareholders.

Our executive compensation program includes the following components:

base salaries comparable to those paid by other biotechnology companies of comparable size and mission, taking into account the qualifications and performance of our executive officers;

annual bonuses that are structured to encourage executives to focus on achieving important short-term corporate and individual objectives; and

long-term incentives in the form of stock option grants, which provide financial rewards on the same basis as those realized by our shareholders.

Base Salaries. On January 13, 2004, the Compensation Committee met to consider the compensation levels of our chief executive officer and our other executive officers for 2004. In addition, the Compensation Committee discussed the performance of our executive officers with respect to our corporate objectives that were set in early 2003. The primary objectives consisted of making substantial progress in our clinical programs; successfully strengthening our financial assets; and further developing our manufacturing capabilities and processes. The Compensation Committee concluded that the executive officers had achieved or exceeded substantially all of the 2003 corporate goals. In light of fact that the chief executive officer and our other executive officers had not had an increase in base salaries in 2003 and that they had achieved or exceeded substantially all of the corporate goals for 2003, including making substantial progress in our clinical programs, successfully strengthening our financial assets, and further developing our manufacturing capabilities and proce