

TARGETED GENETICS

SEEING FARTHER

1999 ANNUAL REPORT

*vision*

WE DISCOVER, DEVELOP, *and* DELIVER  
MOLECULAR MEDICINES

*to* CURE DISEASE

*mission* TARGETED GENETICS DEVELOPS AND COMMERCIALIZES GENE AND CELL THERAPY PRODUCTS THAT WILL HAVE A MAJOR IMPACT ON THE TREATMENT OF DISEASE. WE CREATE VALUE BY TRANSLATING BASIC RESEARCH DISCOVERIES INTO INNOVATIVE PRODUCTS. WE COLLABORATE WITH PHARMACEUTICAL AND BIOTECHNOLOGY COMPANIES TO MAXIMIZE THE VALUE OF OUR PRODUCTS AND TECHNOLOGY. OUR SUCCESS WILL BENEFIT OUR INVESTORS, OUR ACADEMIC AND COMMERCIAL PARTNERS, OUR PATIENTS AND THEIR LOVED ONES.



from left: H. Stewart Parker, President and CEO;  
James A. Johnson, Senior Vice President and CFO;  
and Barrie Carter, Executive Vice President and  
Director of Research and Development

## TO OUR SHAREHOLDERS

letter from H. STEWART PARKER, CEO

### ON BEHALF OF EVERYONE AT TARGETED GENETICS,

I'd like to welcome the new members of our growing community of investors, employees, business partners, physicians and patients. We all share the same goal, which is to create a successful vehicle for preventing and curing disease. I'm pleased to report that 1999 was a year of major progress in all of Targeted Genetics' important activities related to that goal. We advanced our products in clinical trials, we strengthened our technology platforms, we formed new alliances and we developed exciting new product opportunities.

1999 was also a year of validation for fundamental elements of our long-term strategy. In the early years of Targeted Genetics, we made a number of decisions that departed from the conventional wisdom of the time. For

example, we believed that it was important to develop both viral and synthetic approaches to gene delivery rather than focus on a single method. Today we have multiple product formulations employing viral vectors and synthetic vectors, either moving through clinical trials or in preclinical development. Both delivery platforms are robust and ready to be applied to new diseases and product development programs. This capability led directly to our new partnership with Elan Corporation plc, announced last July.

Also in our early years, we selected adeno-associated viral (AAV) vectors as our lead viral-based delivery platform, and we began building a manufacturing capability for AAV alongside our product development program. Today vectors are quickly gaining adherents throughout the gene therapy community, and we believe that Targeted Genetics is

the only company capable of efficiently and economically manufacturing commercial quantities of the vector. This capability has figured prominently in our ability to attract major research and commercialization partnerships.

Yet another decision was to focus pragmatically on product candidates that would give us the earliest opportunity to assess the safety profiles of our delivery platforms, rather than invest years in product development without certain knowledge that our vectors were safe. Now, when serious concerns have arisen with some other gene delivery methods, we are advancing with abundant clinical evidence that our vectors are safe for patients.

**PRODUCT DEVELOPMENT PROGRAMS** Our lead product based on a viral vector is tgAAV-CF, a treatment for the root cause of cystic fibrosis (CF). The most common genetic disease among Caucasians, CF occurs in one of every 2,500 live births in the U.S. Without a cure or more effective treatment, most of the estimated 25,000 Americans with CF will die as young adults after fighting serious respiratory illness for most of their lives. Targeted Genetics is now in clinical trials with tgAAV-CF, which is designed to stop CF in its tracks by providing patients with the genetic instructions their own DNA lacks. The AAV vector is capable of long-term expression of the therapeutic gene, so patients should require only infrequent treatment.

Before 1999, we conducted three single-dose trials of tgAAV-CF with patients to gather conclusive data on safety and proof of concept. In 1999, we successfully completed patient accrual for an additional Phase I clinical trial of tgAAV-CF in the aerosol formulation we intend for commercial use. We plan to announce the results of that trial early this summer. We then expect to move quickly into a Phase II trial, studying the effect of repeat dosing with a larger patient population.

Our lead product based on a synthetic vector is tgDCC-E1A, a treatment for head and neck cancers. Worldwide, there are more than 120,000 new cases of head and neck cancers each year. The tumors caused by these cancers are hard to treat surgically because they are close to sensory organs and major arteries, and they soon become resistant to chemotherapy and radiation. Our product strategy is to deliver a cancer-fighting gene known as E1A into the tumors with a proprietary lipid-based vector known as DC-Cholesterol (DCC). This vector works effectively in cells that are dividing rapidly, which makes it a good system for use in tumors. The E1A gene we are delivering with DCC fights cancer in several ways, including reducing expression of a cancer-causing gene called HER-2/*neu*. Laboratory

studies show that E1A can also make cancer cells more sensitive to chemotherapy and radiation, which may make these widely used treatment modalities more effective.

In 1999, we successfully completed a Phase II trial of tgDCC-E1A for head and neck cancers. We have already presented some preliminary data confirming the product's safety profile. We will release the full data from the trial later this spring, and we plan to then initiate a new Phase II trial in which we will treat patients with a combination of tgDCC-E1A and chemotherapy.

We are also testing tgDCC-E1A as a treatment for other types of cancer, and in late 1999 we presented promising preclinical data showing that tgDCC-E1A was particularly effective in reducing cancer tumors when it is combined with two chemotherapy drugs (paclitaxel and cisplatin). Before the year ended, we began enrolling patients in a Phase I clinical trial to study the effectiveness of this approach in women with ovarian cancer. The trial will run through most of this year, and we expect to report results in 2001.

We anticipate that the next product we put into clinical trials will be a treatment for hemophilia A. Approximately one quarter of hemophiliacs have mild disease that presents little problem unless they have surgery or suffer a serious wound. For everyone else with hemophilia A, any bleeding event is potentially fatal. Even simple activities can cause blood to leak into their joints, leading to painful inflammation, loss of motion and severe arthritis. The current treatment for the disease is to provide a cloned clotting factor protein that hemophiliacs are genetically unable to produce, but this approach is too expensive to use widely as a preventive measure. This creates a significant opportunity to take a new approach with gene therapy: restoring the genetic information required to produce the missing clotting factor. We launched this new product development program in 1999, after a breakthrough in preclinical research conducted at the University of North Carolina at Chapel Hill. We expect to begin Phase I clinical trials of our new hemophilia product in 2001.

There is another product development program at Targeted Genetics that merits your attention, even though we did not make the relevant announcement until the first quarter of 2000. We are now actively developing a vaccine for HIV, the viral infection that causes AIDS. Particularly in the developing world, preventing the spread of HIV is one of the top public health priorities for humankind. Tens of millions of people are living with the virus and millions more children have been orphaned by it. Our approach in developing an HIV vaccine is to use AAV to deliver prophylactic genes to healthy people at risk of infection. As with hemophilia, our strong AAV technology platform put us in position to benefit from research in HIV prevention, this time at Children's

Hospital of Ohio. We are now conducting additional research and preclinical studies in preparation for initiating clinical trials.

**TECHNOLOGY PLATFORMS** I have already mentioned the safety and long-term gene expression of our AAV vector, which we are using in our cystic fibrosis, hemophilia and HIV programs as well as in other preclinical research activities. Early on in our history, we became convinced that in order to be successful with AAV in the long term, we had to tackle issues related to large-scale production processes and manufacturing of the vector. In addition, we felt it was important to answer basic questions about AAV in the context of a pragmatic product development effort. We surveyed various genetic diseases and genes to find the best available fit for AAV and selected cystic fibrosis because there was available preclinical research that would enable us to start testing a product with patients fairly quickly. We then began working with the U.S. Food and Drug Administration to establish procedures for conducting and monitoring trials of AAV-based gene therapy.

As a result of our progress with cystic fibrosis, we believe we are well ahead of other organizations in terms of our overall expertise with AAV: in the laboratory, the clinic and the manufacturing arena. During 1999 we enhanced our competitive advantages in all three areas. In particular, we completed construction of a facility that will produce AAV for our clinical trials and serve as the testing ground for a future, dedicated manufacturing facility for the supply of Phase III trials and early commercial requirements. We also exclusively licensed a broad patent covering AAV manufacturing processes. We believe this combination of intellectual property and practical expertise makes us the partner of choice for organizations interested in AAV-based drug development.

Our synthetic vector program now includes two vectors, both based on proprietary cationic lipid formulations. Our DCC vector, the platform for our current cancer products described above, has the right characteristics for repeated, efficient delivery of therapeutic genes into dividing cells and tissues. Our Lipid Polycation DNA (LPD) vector offers the potential to deliver therapeutic genes systemically rather than through localized or invasive means. We are currently evaluating product opportunities involving LPD and expect to launch a new product development program with LPD-E1A this year.

In addition to two strong gene delivery platforms, we also have a well-developed, patent-protected technology platform that could provide the basis for personalized medicine. This emerging field involves treating patients with disease-fighting cells taken from their own bodies. This form of personalized

medicine may be especially valuable for patients suffering from chronic disease, who have such diminished numbers of key immune system cells that their bodies can no longer effectively fight the disease. The challenge is to find the specific cells, multiply their numbers outside the body and return them to the patient to produce a therapeutic result.

Targeted Genetics has exclusive rights to technology that can meet this challenge. Our Rapid Expansion Method (REM) is the only method yet demonstrated that can rapidly isolate specific, disease-killing immune cells known as cytotoxic T lymphocytes (CTLs) and amplify very small numbers of CTLs into millions. In 1999, we continued to expand and strengthen our REM technology's intellectual property position, while assessing additional fields where we could apply it. These include drug discovery, vaccine development, immunological research and veterinary medicine. We are now assessing the kinds of partnerships, business structures and product development programs we believe can best harness the power of REM technology for healing disease.

**PARTNERS** One of our early strategic decisions was to concentrate on translational research that would form a bridge between basic research on the one hand and the pharmaceutical industry on the other. We believed this was necessary because gene therapy has its own set of development challenges that require intense focus. We reasoned that if we mastered gene therapy's development challenges, both basic researchers and large pharmaceutical companies would want to work with us.

In fact, that is exactly what is happening. In 1999, we completed the first full year of our partnership with Celltech Group plc for commercialization of tgAAV-CF. Celltech provides a number of pharmaceutical remedies for respiratory illnesses, so they understand the value of gene therapy for cystic fibrosis. Our partnership with them provides Targeted Genetics with up-front capital, milestone payments as we progress through clinical trials and an established distribution system for getting tgAAV-CF into the hands of doctors and patients. The partnership is successful and proceeding on schedule.

During the year we formed a second drug company partnership, this time with Elan Corporation plc. In this case, Elan came to us because of our strong gene delivery technology platforms, which complement their own drug delivery expertise. As I've described earlier, our current products combine a therapeutic gene with a delivery vector that expresses the gene. Elan has developed complementary technology that might be used to carry our gene/vector combinations into the body and deliver them to specific organs and tissues. So we agreed to work together to assess the

## ELAN CORPORATION PLC

"TARGETED GENETICS' ABILITY TO DEVELOP NOVEL AND PROPRIETARY VECTORS IS ONE OF THE REASONS WE SELECTED THE COMPANY AS OUR EXCLUSIVE PARTNER IN GENE DELIVERY. EMERALD GENE SYSTEMS COMBINES ELAN'S TARGETING TECHNOLOGIES AND TARGETED GENETICS' EXPERTISE IN VECTOR DEVELOPMENT AND MANUFACTURING WITH AN EYE TO DEVELOPING A NEW GENERATION OF THERAPEUTICS."

MICHAEL SEMBER, EXECUTIVE VICE PRESIDENT, ELAN CORPORATION PLC

## SANGAMO BIOSCIENCES

“WE BELIEVE THAT TARGETED GENETICS IS A GLOBAL LEADER IN THE DESIGN AND PRODUCTION OF A VARIETY OF VECTORS FOR GENE DELIVERY, INCLUDING ADENO-ASSOCIATED VIRAL, RETROVIRAL, ADENOVIRAL AND NON-VIRAL VECTORS. THEIR MULTIPLE DELIVERY SYSTEMS WILL SIGNIFICANTLY ENHANCE THE FLEXIBILITY OF OUR EXISTING UNIVERSAL GENETOOLS™ PROGRAMS.”

EDWARD LANPHIER, PRESIDENT AND CEO, SANGAMO BIOSCIENCES, INC.

## ALKERMES

“TARGETED GENETICS HAS PROVEN ITSELF TO BE ONE OF THE LEADERS IN THE DEVELOPMENT OF GENE THERAPY TECHNOLOGIES. WE ARE PLEASED TO COLLABORATE WITH THEM IN THE DEVELOPMENT OF THIS IMPORTANT AAV PRODUCTION TECHNOLOGY.”

RICHARD POPS, CEO, ALKERMES, INC.

synergy between the two companies' technology and look for commercial opportunities. Because the partnership with Elan requires a vehicle for conducting this technology assessment, identifying product candidates and developing them into viable development programs, we formed a joint venture called Emerald Gene Systems. Our vision for this joint venture is that it will create new product opportunities that did not exist before and prepare them for clinical trials, and then partner with larger pharmaceutical companies to take the products the rest of the way.

A third form of partnership, aimed at developing the potential of basic research, also came to us in 1999, this time as a result of our broad leadership in the field of AAV. The International AIDS Vaccine Initiative (IAVI) announced in early 2000 that it will provide major funding for Targeted Genetics to develop an HIV vaccine in collaboration with Children's Hospital of Ohio. IAVI's ambitious goal is to deliver, as soon as possible, a vaccine that prevents the spread of AIDS throughout the world. Given its emphasis on speed, IAVI seeks the research and development partners who are farthest along in their fields. The demonstrated safety of our AAV-based gene delivery platform, and our ability to manufacture commercial quantities of the vector, made us a clear choice for developing a vaccine using gene therapy principles.

**PROSPECTS** The products, platforms and partnerships I've described above come together to give us a truly exciting range of prospects going forward. In the product development arena, we look forward to analyzing and announcing the results of the cancer and cystic fibrosis clinical trials we already have under way. In the year ahead, we will also put our new hemophilia and HIV products into our development pipeline, and we are preparing still other product formulations for metastatic cancer and rheumatoid arthritis.

Partnership is also a fertile field for us now. We believe that in the next 12 months, our Emerald Gene Systems joint venture with Elan will complete its technology assessment phase and identify one or more product candidates. We are discussing additional opportunities with other potential partners, including a commercialization partnership for hemophilia and development partnerships for applications of our REM technology.

One of the most exciting prospects ahead concerns the field of genomics. As scientists decode the human genetic code, they are encountering a broad challenge followed by an even broader opportunity. The challenge is to understand the function of each new gene that is discovered. The opportunity is to create new drugs with the genes that turn out to cure or prevent disease. Targeted Genetics is strongly positioned to partner with genomics companies for both activities. Our

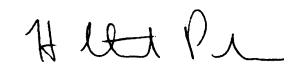
gene delivery vectors take genes into cells and express their genetic instructions in ways that can be measured and monitored, so they are excellent tools for functional genomics studies. And because we know how to combine our vectors with genes to make products, we also represent an excellent partner for drug development.

As I look back on our first eight years, the genomics revolution seems to draw into sharper focus the strategic, long-range decisions we made when Targeted Genetics was spun out of Immunex in 1992. Each of those decisions has led directly to a significant competitive advantage today. For example, we assembled multiple delivery systems, giving us more ways to benefit from the discovery of new therapeutic genes than most companies have. We developed R&D, manufacturing and clinical trial management capabilities that collectively enable us to turn new vector/gene combinations into commercial products quickly and efficiently. And we built entire technology platforms, making us a more complementary partner for functional genomics.

One other decision we made is so basic that it's easy to overlook. We have always managed Targeted Genetics as a product-focused business rather than a scientific research enterprise. Our philosophy is to take carefully calculated risks, to invest for the long term and to get the maximum return from every available resource. This approach has brought us closer to what I believe will be one of the most exciting eras in our company's history: conducting pivotal trials of our first products. We have always believed in the promise of gene therapy, and soon we should be able to watch it live up to its potential.

The story of Targeted Genetics is a story of people coming forward, individually and as a team, to work hard for something they believe in, and we wrote another chapter in that story in 1999. We thank you for your continued confidence in us, and I look forward to reporting on our progress in the year ahead.

Sincerely,



H. Stewart Parker  
President and Chief Executive Officer

SEEING FARTHER MEANS

SEEING THROUGH:

FINDING *the* PATHWAY THAT LEADS *to* PROGRESS -- IDENTIFYING  
*the* PATTERN HIDDEN *in* COMPLEXITY -- FOCUSING *on*  
LONG-TERM GOALS *in a* SHORT-TERM WORLD -- STAYING *the*  
COURSE *to* REACH *the* DESTINATION

—

SEEING FARTHER *is* SEEING *the* WAY -- *to* SUCCESS *in* GENE THERAPY

TARGETED GENETICS' LEADERSHIP IS...

BASED *on* FORESIGHT

EXPRESSED THROUGH PROGRESS

VALIDATED *by* PARTNERS

IN THE DECADE SINCE THE ADVENT OF COMMERCIAL DEVELOPMENT PROGRAMS BASED ON GENE THERAPY, THE MAIN CHALLENGE FACING THE YOUNG INDUSTRY HAS BECOME CLEAR: DELIVERING GENES INTO CELLS OR TISSUES OF THE BODY IN A WAY THAT DOES NO HARM TO THE PATIENT AND THAT LEADS TO THERAPEUTIC EXPRESSION OF PROTEINS THE BODY IS UNABLE TO PRODUCE ON ITS OWN. TARGETED GENETICS HAD THE FORESIGHT TO DEVELOP TWO DISTINCTLY DIFFERENT GENE DELIVERY SYSTEMS: ADENO-ASSOCIATED VIRAL (AAV) VECTORS AND SYNTHETIC, LIPID-BASED VECTORS. SUBSEQUENT EVENTS IN THE FIELD OF GENE THERAPY — INCLUDING OUR SAFE, SUCCESSFUL CLINICAL TRIALS WITH BOTH DELIVERY SYSTEMS — HAVE BORNE OUT THE ACCURACY OF OUR ORIGINAL CHOICES. IN 1999, WE MADE SUBSTANTIAL PROGRESS WITH OUR PRODUCT DEVELOPMENT AND PARTNERSHIP PROGRAMS BASED ON VIRAL AND SYNTHETIC VECTORS.

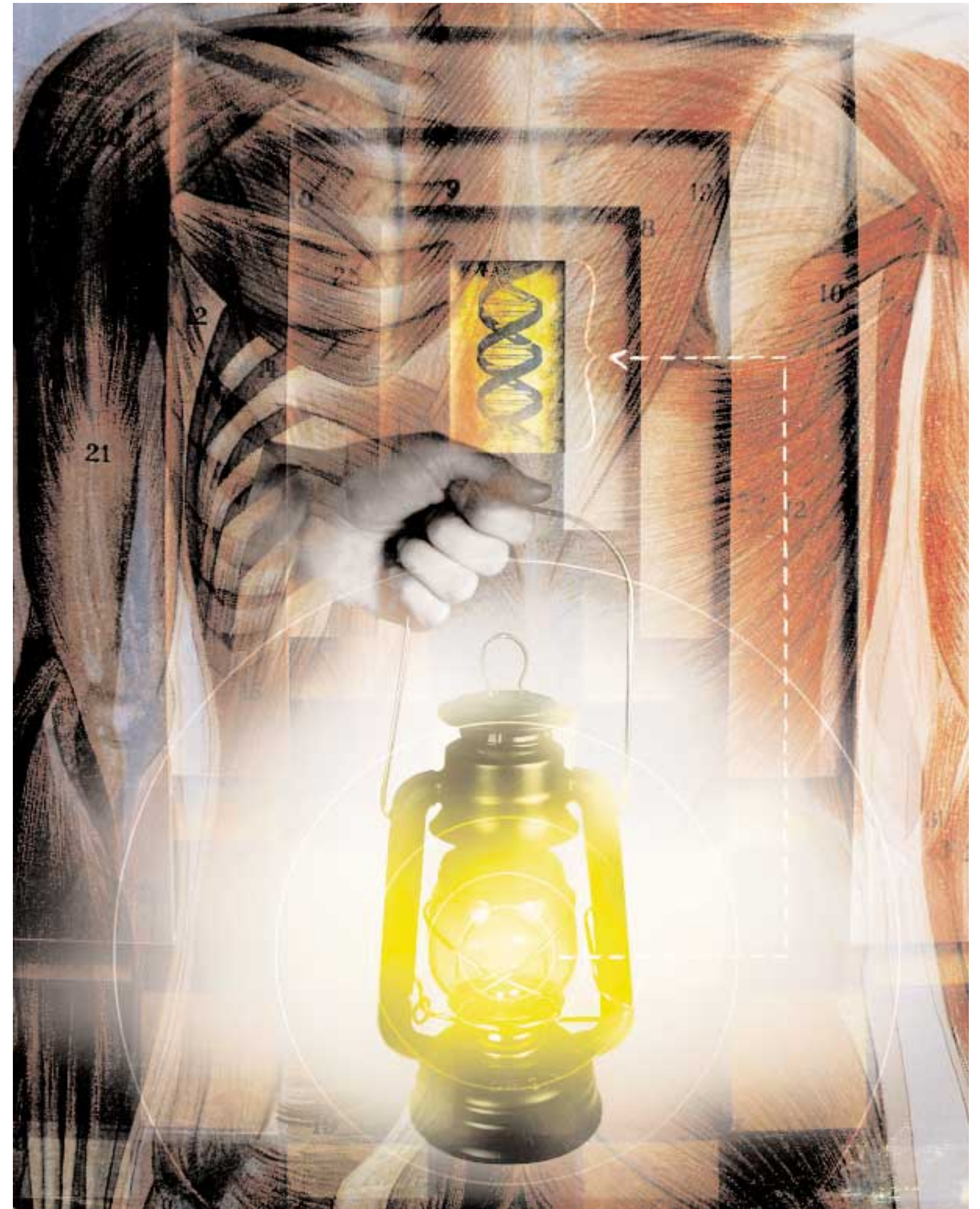
SEEING FARTHER

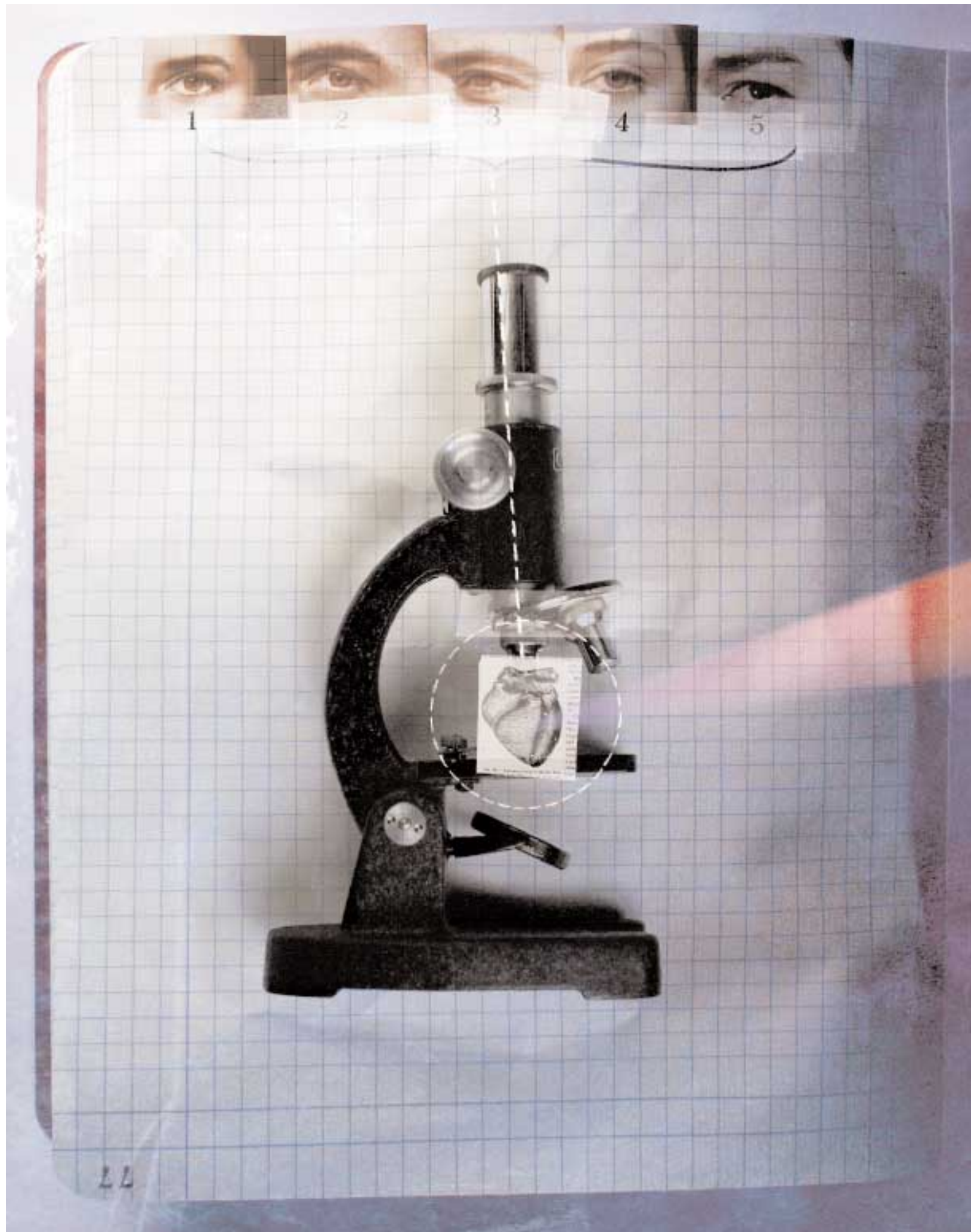
MILESTONE ACHIEVEMENTS IN 1999

MARK *our* PROGRESS

TOWARD LONG-TERM SUCCESS

- 
- PRESENTED DATA FROM SUCCESSFUL PHASE II tGAAV-CF SINUSITIS TRIAL
  - COMPLETED PHASE I TRIAL OF tGAAV-CF (AEROSOLIZED VERSION) FOR CYSTIC FIBROSIS
  - COMPLETED PHASE II TRIAL OF tGDCC-EIA FOR HEAD AND NECK CANCERS
  - INITIATED PHASE I TRIAL OF tGDCC-EIA IN COMBINATION WITH CHEMOTHERAPY FOR OVARIAN CANCER
  - FORMED JOINT VENTURE WITH ELAN CORPORATION PLC TO CONDUCT APPLIED RESEARCH AND PRODUCT DEVELOPMENT
  - LICENSED KEY GENE THERAPY TECHNOLOGY FOR USE OF AAV VECTORS TO TREAT HEMOPHILIA A
  - BROADENED LICENSE TO KEY TECHNOLOGY FOR COMMERCIAL PRODUCTION OF AAV
  - COMPLETED BUILDOUT OF 100-LITER-SCALE AAV MANUFACTURING FACILITY
- 





HEARTS *and* MINDS

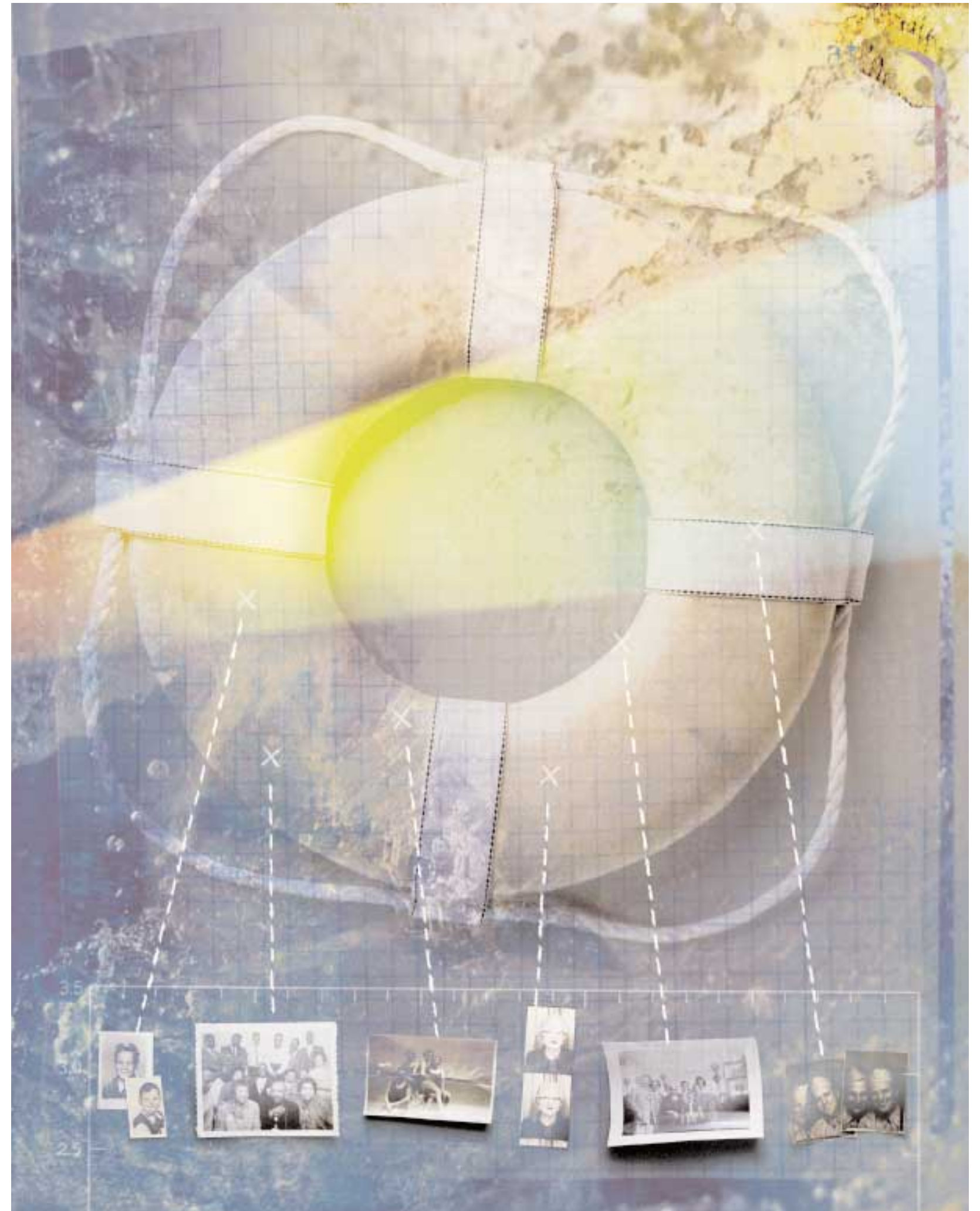
OUR DEDICATION TO FIGHTING DISEASE  
BLENDS SCIENCE, SKILL *and*  
PERSONAL COMMITMENT

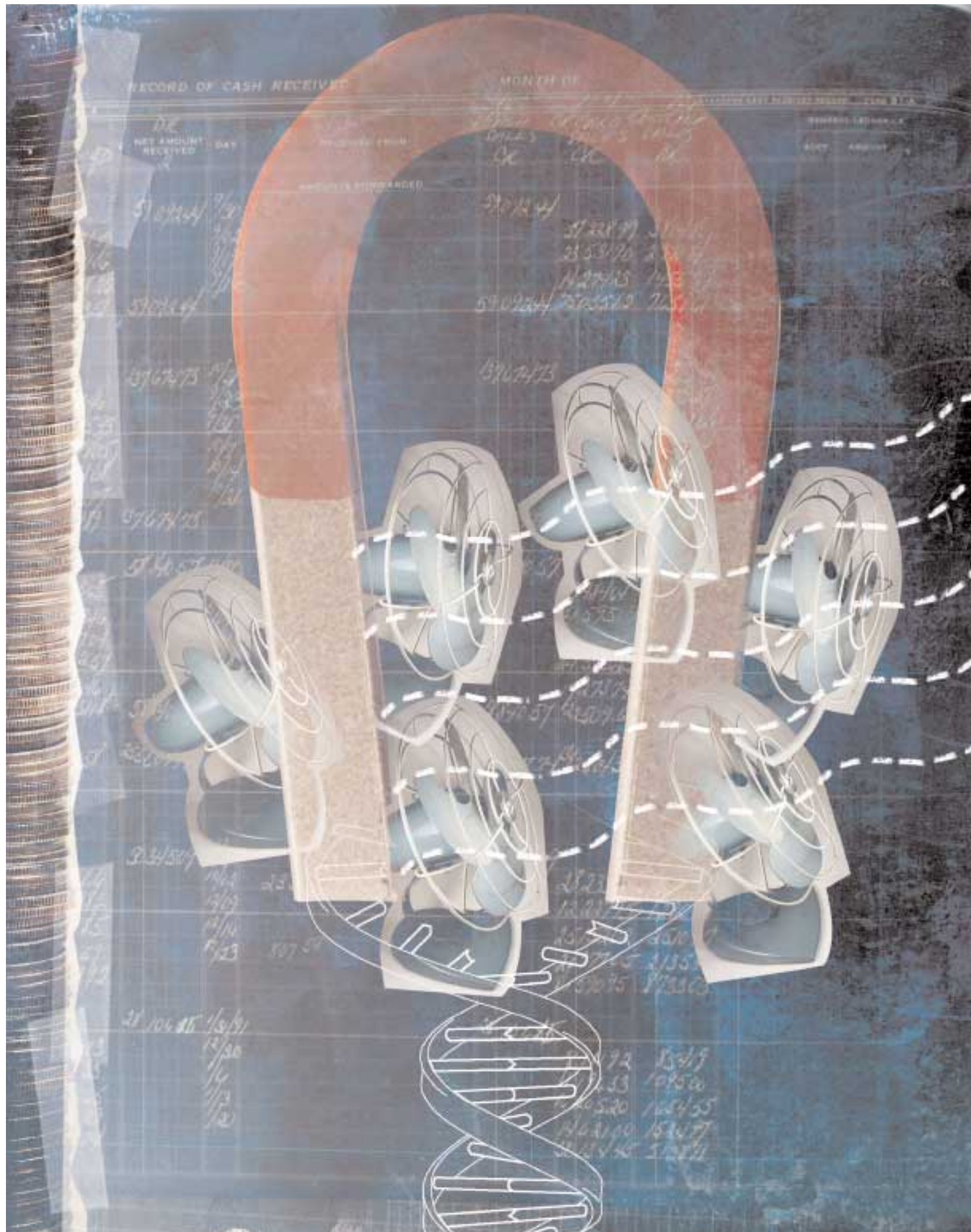
AT TARGETED GENETICS, WE BRING BOTH INTELLECTUAL RIGOR AND PERSONAL PASSION TO THE FIGHT AGAINST DISEASE. IN 1999, THIS COMBINATION LED US TO KEY MILESTONES IN DEVELOPING PRODUCTS TO FIGHT CANCER AND CYSTIC FIBROSIS. WE COMPLETED A PHASE I CLINICAL TRIAL OF tgAAV-CF (FOR CYSTIC FIBROSIS) AND A PHASE II TRIAL OF tgDCC-EIA (FOR CANCERS OF THE HEAD AND NECK). WE ALSO BEGAN A PHASE I TRIAL COMBINING tgDCC-EIA WITH CHEMOTHERAPY TO TREAT OVARIAN CANCER. OUR TWO NEWEST DEVELOPMENT PROGRAMS DEMONSTRATE THE DETERMINATION OF TARGETED GENETICS SCIENTISTS TO FIGHT ADDITIONAL IMPORTANT DISEASES. IN LATE 1999, WE BEGAN DEVELOPING ONE OF THE MOST PROMISING APPROACHES TO A NEW DRUG FOR HEMOPHILIA A, A LIFE-THREATENING GENETIC DISEASE. AND IN EARLY 2000, WE ANNOUNCED THAT TARGETED GENETICS WILL WORK TO DEVELOP A VACCINE FOR HIV, THE VIRUS THAT CAUSES AIDS.

WE DEVELOP PROVEN PROCESSES

*for* TRANSLATING SCIENTIFIC RESEARCH  
*into* CLINICAL BENEFIT

DRUG DISCOVERY IS ONLY ONE PART OF THE DRUG DEVELOPMENT PROCESS. IT IS EQUALLY IMPORTANT TO DEVELOP A SAFE, EFFICIENT AND SCALABLE PROCESS FOR MANUFACTURING THE NEW DRUG, SO THAT IT CAN BE MADE COMMERCIALY AVAILABLE TO PATIENTS. ONE OF OUR MAJOR ACHIEVEMENTS IN 1999 WAS COMPLETING A NEW, DEDICATED MANUFACTURING FACILITY FOR OUR AAV GENE DELIVERY VECTORS. THIS FACILITY MOVES US EVEN FARTHER AHEAD OF OTHER COMPANIES WORKING WITH AAV. THE DIFFERENCE IS THAT WE HAVE EXCLUSIVELY LICENSED INTELLECTUAL PROPERTY THAT IS KEY TO MAKING COMMERCIAL QUANTITIES OF AAV-BASED DRUGS AND WE HAVE MASTERED THE NECESSARY PROCESS DEVELOPMENT. WE CAN NOW MANUFACTURE AAV NOT ONLY FOR OUR EXISTING PRODUCTS BUT FOR ALL FUTURE TARGETED GENETICS PRODUCTS.





ATTRACTING PARTNERS

A GROWING COMMUNITY OF  
COMMERCIAL *and* ACADEMIC PARTNERS  
VALIDATES OUR VISION

TARGETED GENETICS WAS FOUNDED TO BRIDGE THE GAP BETWEEN BIOSCIENCE AND COMMERCE. OUR GOAL IS TO TAKE RESEARCH DISCOVERIES FROM LEADING ACADEMIC LABORATORIES, TRANSLATE THEM INTO SAFE AND EFFECTIVE PRODUCTS AND PARTNER THOSE PRODUCTS WITH COMPANIES THAT HAVE PROVEN DISTRIBUTION CHANNELS TO DOCTORS AND PATIENTS. IN 1999, WE CONTINUED TO EXPAND OUR ROSTER OF SUCH ALLIANCES — A CRITICAL MEASURE OF OUR LEADERSHIP IN THE FIELD OF GENE THERAPY.

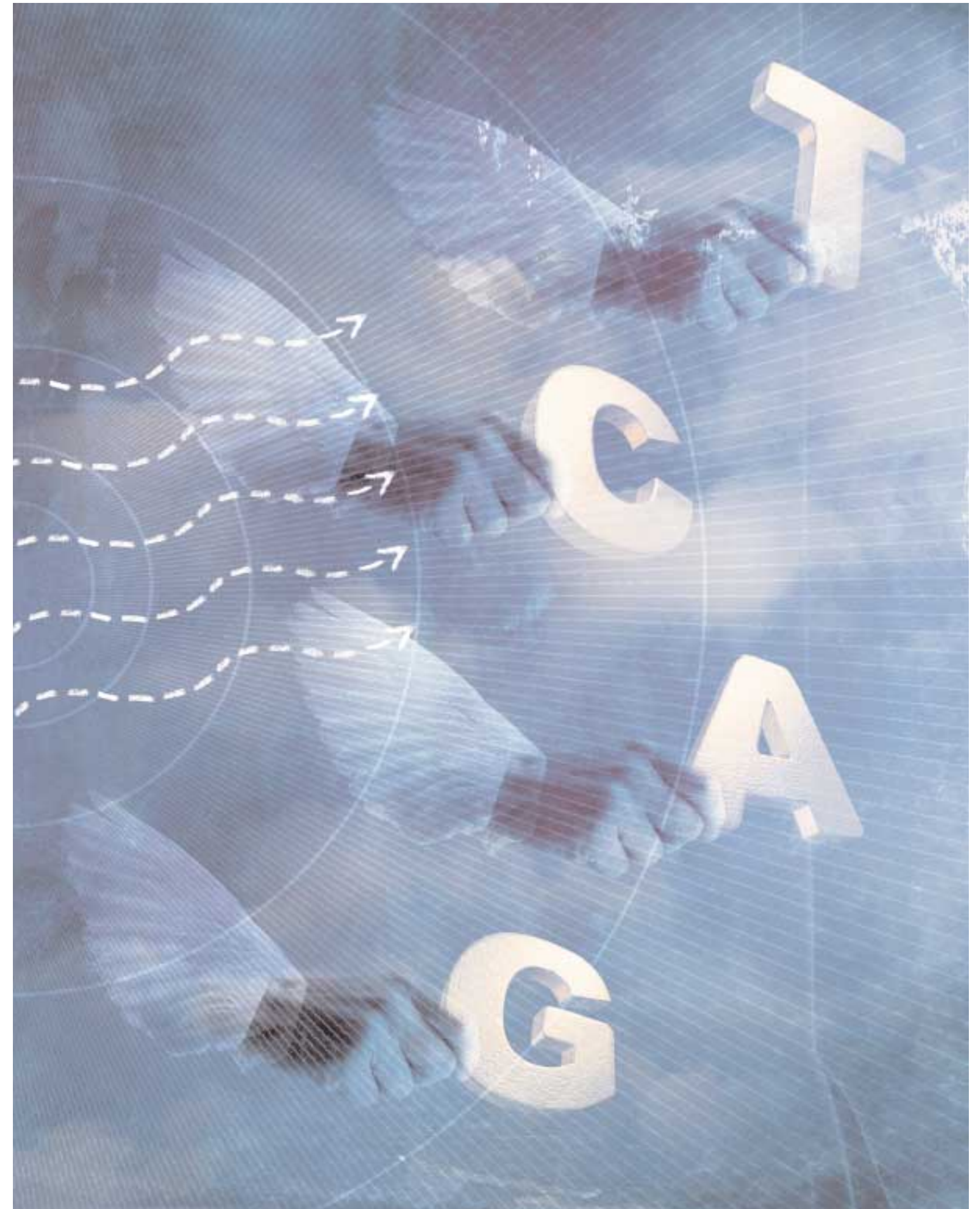
WE ADVANCED OUR COLLABORATION WITH CELLTECH GROUP PLC, OUR COMMERCIALIZATION PARTNER FOR CYSTIC FIBROSIS, AND FORMED A JOINT VENTURE WITH ELAN CORPORATION PLC (EMERALD GENE SYSTEMS) TO DEVELOP INNOVATIVE PRODUCTS BASED ON THE TECHNOLOGICAL SYNERGY BETWEEN OUR TWO COMPANIES. IN ADDITION, WE LICENSED KEY TECHNOLOGY FOR AAV-BASED TREATMENT OF HEMOPHILIA A FROM THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL. IN EARLY 2000, WE ALSO ANNOUNCED MAJOR FUNDING FROM THE INTERNATIONAL AIDS VACCINE INITIATIVE (IAVI) TO DEVELOP AN HIV VACCINE IN COLLABORATION WITH CHILDREN'S HOSPITAL OF OHIO.

FOCUSING FORWARD

AS OUR RESOURCES EXPAND,  
WE ARE OPENING UP  
NEW OPPORTUNITIES

MASTERING THE PROCESS REQUIRED TO COMMERCIALIZE NEW MEDICINES

PRODUCT	DEVELOPMENT STATUS				
	<i>research</i>	<i>preclinical</i>	<i>phase I</i>	<i>phase II</i>	<i>phase III</i>
IN VIVO AAV GENE THERAPY	CYSTIC FIBROSIS	•	•	•	
	HEMOPHILIA A	•	•		
	RHEUMATOID ARTHRITIS	•	•		
	AIDS VACCINE	•	•		
	CARDIOVASCULAR DISEASE	•			
EIA CANCER GENE THERAPY	HEAD AND NECK CANCER	•	•	•	•
	OVARIAN CANCER	•	•	•	



## THE YEAR AHEAD -- 2000 GOALS

WE SEE *the* MILESTONES AHEAD -- AS STEPS *in* OUR JOURNEY

TOWARD NEW CURES *for* DEADLY DISEASES

### *clinical programs*

- PRESENT DATA FROM PHASE I CLINICAL TRIAL OF AEROSOLIZED tGAAV-CF FOR CYSTIC FIBROSIS
- INITIATE PHASE II CLINICAL TRIAL OF AEROSOLIZED tGAAV-CF FOR CYSTIC FIBROSIS
- PRESENT AND PUBLISH DATA FROM PHASE II TRIAL OF tGDCC-EIA FOR HEAD AND NECK CANCER
- INITIATE PHASE II TRIAL OF tGDCC-EIA IN COMBINATION WITH CHEMOTHERAPY FOR HEAD AND NECK CANCER
- COMPLETE PHASE I TRIAL OF tGDCC-EIA IN COMBINATION WITH CHEMOTHERAPY FOR OVARIAN CANCER

### *preclinical programs*

- PREPARE TO INITIATE PHASE I CLINICAL TRIAL IN HEMOPHILIA A
- PREPARE TO INITIATE PHASE I CLINICAL TRIAL OF EIA FOR METASTATIC CANCER
- PRESENT AND PUBLISH RESULTS OF PRECLINICAL STUDIES OF TREATMENTS FOR RHEUMATOID ARTHRITIS

### *corporate development*

- COMPLETE ADDITIONAL ALLIANCES AND PARTNERSHIP TRANSACTIONS

## FINANCIAL HIGHLIGHTS

<i>Year ended December 31</i>	1999	1998	1997	1996	1995
<b>RESULTS OF OPERATIONS</b>					
Revenues	\$ 6,847,993	\$ 7,510,252	\$ 1,327,585	\$ 1,330,458	\$ 174,625
Operating expenses	21,084,502	16,372,987	15,828,094	27,894,811	10,462,429
Loss from operations	(14,236,509)	(8,862,735)	(14,500,509)	(26,564,353)	(10,287,804)
Net loss applicable to common stock	(27,030,648)	(8,687,049)	(14,187,774)	(26,038,042)	(9,922,284)
Basic and diluted net loss per share	(.84)	(.33)	(.70)	(1.59)	(.94)
Shares used in computing basic and diluted net loss per share	32,173,756	26,637,823	20,196,325	16,407,928	10,532,950
<b>FINANCIAL CONDITION</b>					
Cash, cash equivalents and securities available for sale	\$ 7,153,269	\$11,956,796	\$ 5,037,821	\$19,051,070	\$14,442,562
Total assets	13,692,478	16,204,083	9,767,084	25,139,052	19,960,460
Long-term obligations, including current portion	3,267,071	2,072,044	2,547,324	3,378,420	3,286,508
Shareholders' equity	6,965,514	11,981,759	5,591,587	19,507,788	15,772,836

## BOARD OF DIRECTORS

JEREMY CURNOCK COOK  
Chairman of the Board  
Director, Targeted Genetics Corporation  
Rothschild Asset Management Limited

JACK L. BOWMAN  
Former Company Group Chairman,  
Johnson & Johnson

JAMES D. GRANT  
Former Chairman and Chief Executive Officer,  
T Cell Sciences, Inc.

LOUIS P. LACASSE  
President,  
GeneChem Management, Inc.

NELSON L. LEVY, PHD, MD  
Chairman and Chief Executive Officer,  
CoreTechs Corporation

H. STEWART PARKER  
President and Chief Executive Officer,  
Targeted Genetics Corporation

MARK RICHMOND, PHD, DSc  
Former Director of Research,  
Glaxo plc

## MANAGEMENT

H. STEWART PARKER  
President, Chief Executive Officer

BARRIE J. CARTER, PHD  
Executive Vice President,  
Director of Research and Development

JAMES A. JOHNSON  
Senior Vice President, Finance and Administration,  
Chief Financial Officer, Treasurer and Secretary

MICHAEL T. BURKE  
Vice President, Business Development

THOMAS C. REYNOLDS, MD, PHD  
Vice President, Clinical Affairs

PERVIN ANKLESARIA, PHD  
Senior Director, Research

JANET ROSE CHRISTENSEN  
Senior Director, Regulatory Affairs  
and Quality Assurance

VICTORIA BATLER CLEATOR  
Senior Director, Operations

DAVID M. SCHUBERT  
Senior Director, Communications and Strategic Relations

E. MORREY ATKINSON, PHD  
Director, Process Development

KIM WIETIES CLARY, PHD  
Director, Intellectual Property

CARMEL M. LYNCH, PHD  
Director, Preclinical Biology

DAVID J. POSTON  
Director, Finance

GEOFFREY E. ROACH  
Director, Human Resources

CHARLES L. SMITH, JR  
Director, Quality Control

KAREN E. WEISSER  
Director, Information Systems

## CORPORATE HEADQUARTERS

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Tel: 206.623.7612  
www.targetedgenetics.com

## TRANSFER AGENT AND REGISTRAR

CHASEMELLON SHAREHOLDER SERVICES  
85 Challenger Road  
Ridgefield Park, New Jersey 07660  
Tel: 1.800.522.6645  
www.cmsonline.com

## SHAREHOLDER INQUIRIES

Inquiries regarding the Company and its activities may be directed to the Communications Department at the corporate headquarters. Communications concerning stock transfer requirements, lost certificates and changes of address should be directed to the Transfer Agent.

## GENERAL COUNSEL

Perkins Coie LLP, Seattle, Washington

## INDEPENDENT AUDITORS

Ernst & Young LLP, Seattle, Washington

## NEWS RELEASES

News releases are available on the Internet at [www.prnewswire.com](http://www.prnewswire.com), on Company News On-Call and by fax by calling 1.800.758.5804. The six-digit code is 832075. This electronic, menu-driven system allows callers to receive specific Targeted Genetics releases via fax within minutes of their request.

## STOCK LISTING

Targeted Genetics' common stock is traded on the Nasdaq National Market under the symbol TGEN.

## PRICE RANGE OF COMMON STOCK

As of March 1, 2000, there were approximately 15,300 holders of the Company's common stock. No dividends have been paid on the common stock since the Company's inception and the Company does not anticipate paying dividends in the foreseeable future.

1999	HIGH	LOW
First Quarter	3 <sup>1</sup> / <sub>6</sub>	1 <sup>5</sup> / <sub>16</sub>
Second Quarter	1 <sup>13</sup> / <sub>16</sub>	1 <sup>7</sup> / <sub>16</sub>
Third Quarter	2 <sup>3</sup> / <sub>4</sub>	1 <sup>1</sup> / <sub>2</sub>
Fourth Quarter	4 <sup>7</sup> / <sub>8</sub>	1 <sup>1</sup> / <sub>4</sub>

1998	HIGH	LOW
First Quarter	3 <sup>1</sup> / <sub>8</sub>	3 <sup>1</sup> / <sub>32</sub>
Second Quarter	4 <sup>1</sup> / <sub>4</sub>	1 <sup>3</sup> / <sub>16</sub>
Third Quarter	1 <sup>3</sup> / <sub>4</sub>	7 <sup>1</sup> / <sub>8</sub>
Fourth Quarter	2 <sup>5</sup> / <sub>16</sub>	1 <sup>3</sup> / <sub>16</sub>

## ANNUAL MEETING

The annual meeting of shareholders will be held at 8:30 A.M. on Friday, May 12, 2000, at the Washington Athletic Club, 1325 Sixth Avenue, Seattle, Washington.

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