

TARGETED GENETICS CORP /WA/
Form DEF 14A
April 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

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.

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3) Filing Party:

4) Date Filed:

TARGETED GENETICS CORPORATION

1100 Olive Way, Suite 100

Seattle, Washington 98101

April 1, 2009

Dear Fellow Shareholder:

You are cordially invited to attend the Targeted Genetics Corporation 2009 Annual Meeting of Shareholders to be held on Thursday, May 14, 2009, at 8:30 a.m. local time at the offices of the Company, 1100 Olive Way, Suite 100, Seattle, Washington.

The matters to be acted upon are described in the accompanying notice of annual meeting and proxy statement. We will also report on our 2008 business results and other matters of interest to our shareholders and there will be time for questions.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the Annual Meeting, we urge you to vote so we can ensure the presence of a quorum at the Annual Meeting. 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. If you attend the Annual Meeting, you may vote in person if you wish, even if you previously returned your proxy card. If you hold your shares through an account with a broker, bank or other custodian, please follow the instructions you receive from them to vote your shares.

Sincerely,

B.G. Susan Robinson
President and Chief Executive Officer

TARGETED GENETICS CORPORATION

1100 Olive Way, Suite 100

Seattle, Washington 98101

NOTICE OF 2009 ANNUAL MEETING OF SHAREHOLDERS

The 2009 Annual Meeting of Shareholders of Targeted Genetics Corporation will be held on Thursday, May 14, 2009, at 8:30 a.m. local time at our business offices, 1100 Olive Way, Suite 100, Seattle, Washington, for the following purposes, as more fully described in the proxy statement accompanying this notice:

To elect one Class 1 and two Class 3 directors to our Board of Directors, with the Class 1 director to serve for a one-year term expiring at the 2010 annual meeting of shareholders or until her successor is duly elected and qualified, and with each of the Class 3 directors to serve for a three-year term expiring at the 2012 annual meeting of shareholders or until his successor is duly elected and qualified;

To approve an increase in the number of our authorized shares of common stock from 45,000,000 shares to 445,000,000 shares;

To consider and vote on a proposal to amend the Targeted Genetics Corporation Stock Incentive Plan to increase the number of shares of common stock authorized for issuance under the plan from 2,200,000 shares to 4,200,000 shares;

To ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009; and

To transact any other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

Our Board of Directors has fixed the close of business on March 13, 2009 as the record date for the Annual Meeting. Only holders of record of our common stock on the record date are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, to ensure your representation and the presence of a quorum, you should complete, sign, date and return the enclosed proxy card as promptly as possible in the enclosed postage-prepaid envelope.

The approximate date of mailing the proxy statement and the accompanying proxy card is April 8, 2009.

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By order of the Board of Directors,

David J. Poston
Vice President, Chief Financial Officer and Secretary

Seattle, Washington

April 1, 2009

TARGETED GENETICS CORPORATION

1100 Olive Way, Suite 100

Seattle, Washington 98101

PROXY STATEMENT

FOR

2009 ANNUAL MEETING OF SHAREHOLDERS

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 2009 Annual Meeting of Shareholders, and at any adjournments or postponements thereof. We will hold the Annual Meeting on Thursday, May 14, 2009 at 8:30 a.m. local time at our business offices, 1100 Olive Way, Suite 100, Seattle, Washington. This proxy statement and the accompanying proxy card, together with our 2008 Annual Report to Shareholders, are first being mailed to shareholders entitled to vote at the Annual Meeting on or about April 8, 2009.

GENERAL INFORMATION

What is the purpose of the Annual Meeting?

There are four proposals to be considered and voted on at the Annual Meeting:

election of one Class 1 and two Class 3 directors to our Board of Directors, with the Class 1 director to serve for a one-year term expiring at the 2010 annual meeting of shareholders or until her successor is duly elected and qualified, and with each of the Class 3 directors to serve a three-year term expiring at the 2012 annual meeting of shareholders or until his successor is duly elected and qualified;

approval of an amendment to our Restated Articles of Incorporation (our Articles) to increase the number of authorized shares of common stock of the Company from 45,000,000 shares to 445,000,000 shares;

approval of an amendment to our Stock Incentive Plan to increase in the number of shares of common stock authorized for issuance under the plan from 2,200,000 shares to 4,200,000 shares; and

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ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009.

We will also consider any other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

Who is entitled to vote at the Annual Meeting?

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. You may vote all shares of our common stock that you owned at the close of business on March 13, 2009, the record date. As of the record date, 20,447,198 shares of our common stock were outstanding and entitled to vote at the Annual Meeting.

What constitutes a quorum?

The presence, in person or by proxy, of the holders of a majority of the shares of our common stock entitled to vote at the Annual Meeting constitutes a quorum for the transaction of business.

What are the voting requirements to elect the directors and to approve the other proposals?

Proposal 1: The one Class 1 director and the two Class 3 directors who receive the greatest number of affirmative votes cast at the Annual Meeting, in person or by proxy, will be elected to the Board of Directors. You are not entitled to cumulate votes in electing directors.

Proposal 2: The affirmative vote of the holders of shares representing a majority of our outstanding shares of common stock is required to approve the proposed amendment to our Articles to increase the number of authorized shares of common stock.

Proposal 3: The affirmative vote of the holders of shares representing a majority of the votes cast at the Annual Meeting is required to approve the proposed increase in the number of shares of common stock authorized for issuance under the our Stock Incentive Plan.

Proposal 4: 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 selection of Ernst & Young LLP as our independent registered public accounting firm.

Our shareholders have no dissenters' rights with respect to these proposals.

What is the effect of not voting?

The effect of not voting depends on the proposal and how the shares you own are held. If you are the holder of record of your shares and you do not attend the Annual Meeting or return a valid proxy, your shares will not be represented at the Annual Meeting and will not count toward the establishment of a quorum. If there is a quorum, failure to vote your shares will not affect the outcome of Proposal 1 (election of directors), which outcome is determined by a plurality of the votes cast, or Proposal 3 (approval of increasing the authorized shares under our Stock Incentive Plan) or Proposal 4 (ratification of our independent registered public accounting firm), which outcomes are determined by a majority of the votes cast. However, failure to vote your shares will have the effect of a vote against Proposal 2 (approval of amending our Articles to increase our authorized common stock), because the approval of Proposal 2 requires the affirmative vote of the holders of shares representing a majority of our outstanding common stock.

If your shares are held in street name (i.e., through a broker, bank, nominee, fiduciary or other custodian), your custodian may represent your shares at the Annual Meeting for the purpose of establishing a quorum. In the absence of voting instructions, your custodian may vote your shares in its discretion on routine matters such as Proposal 1 (election of directors) and Proposal 4 (ratification of our independent registered public accounting firm). However, if you do not give your custodian specific instructions on how to vote, your shares will not be voted on Proposal 2 (approval of amending our Articles to increase our authorized common stock) or Proposal 3 (approval of increasing the authorized shares under our Stock Incentive Plan). This inability of your custodian to vote your shares on Proposals 2 and 3 in the absence of specific instructions from you, which is known as a broker non-vote, will have the effect of a vote against each of Proposals 2 and 3.

How are votes withheld and abstentions treated?

An abstention occurs when you affirmatively instruct a vote to be withheld or when you are present at the meeting but have neither given a valid proxy nor cast a ballot. If you abstain from voting your shares, the shares subject to abstention will be 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 Proposal 1 (election of directors), which outcome is determined by a plurality of the votes cast, or Proposal 3 (approval of increasing the authorized shares under our Stock Incentive Plan) or Proposal 4 (ratification of our independent registered public accounting firm), which outcomes are determined by a majority of the votes cast. With respect to Proposal 2 (approval of amending our Articles to increase our authorized common stock), abstentions will have the same effect as a vote against the proposal.

How are the votes counted?

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. Proxies and ballots will be received and tabulated by Broadridge Financial Solutions, Inc., our inspector of elections for the Annual Meeting. Shares of common stock represented by properly executed proxies for which no instruction is given will be voted FOR the election of the nominees for director, FOR the amendment of our Articles to increase our authorized common stock, FOR the increase in authorized shares under our Stock Incentive Plan, and FOR ratification of the selection of our independent registered public accounting firm.

There are several ways to ensure that your shares are voted. You may vote by internet or telephone using the instructions on the enclosed proxy card, or you may return your proxy card to us by mail using the postage-paid envelope we have provided. If you return your proxy card by mail, please fully complete, sign, date and return it promptly.

Can I change my vote after I have delivered my proxy?

If you are the registered holder of your shares, you may revoke a proxy at any time before its exercise by voting in person at the Annual Meeting or by delivering written notice of revocation to our chief financial officer at any time prior to the Annual Meeting. If your shares are held in street name, you must contact your broker, bank or other custodian to obtain a proxy to vote your shares if you wish to cast your vote in person at the Annual Meeting or to change your vote. 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 effectively been revoked or withdrawn), even if the proxies had been effectively voted on the same or any other matter at a previous meeting.

Who pays the cost of soliciting votes for the Annual Meeting?

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, e-mail, in person or otherwise. We will not additionally compensate our directors, officers and employees for this solicitation but will reimburse them for any 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.

What is the recommendation of the Board of Directors?

The Board of Directors recommends that you vote FOR the election of the nominees for director, FOR the amending our Articles to increase our authorized common stock, FOR the increase in authorized shares under our Stock Incentive Plan, and FOR ratification of the selection of our independent registered public accounting firm.

PROPOSAL ONE

ELECTION OF DIRECTORS

Our bylaws provide that the Board of Directors of Targeted Genetics, or the Board, shall be composed of not less than one nor more than nine directors. We currently have six directors, each of whom is placed into one of three classes such that, to the extent possible, there are an equal number of directors in each class. Directors generally hold office for a three-year term or until a successor is duly elected and qualified. If, however, a director resigns from the Board before his or her term expires, and if the board elects or appoints a director to fill the vacancy, such director must be elected by the shareholders at the next meeting of shareholders at which directors are elected to complete the balance of that term.

At the Annual Meeting, one Class 1 director and two Class 3 directors are to be elected. 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 the nominees named in this proxy statement. If a 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. The Board has no reason to believe that any of the nominees named will be unable to serve if elected. If a quorum is present, the nominee receiving the highest number of votes cast at the Annual Meeting, in person or by proxy, for Class 1 director will be elected to serve as a Class 1 director, and the two nominees receiving the highest number of votes cast at the Annual Meeting, in person or by proxy, for Class 3 director will be elected to serve as Class 3 directors.

Director Jack L. Bowman (a Class 1 director) resigned from the Board effective May 15, 2008, and H. Stewart Parker (a Class 3 director) resigned from the Board effective November 14, 2008. On November 14, 2008, the Board appointed B.G. Susan Robinson to fill the Class 1 vacancy on the Board.

B.G. Susan Robinson has been nominated for election to the Board as a Class 1 director, and Nelson L. Levy and Michael S. Perry have been nominated for re-election to the Board as Class 3 directors. If Dr. Levy and Dr. Perry are re-elected, and Ms. Robinson is elected, the following persons will constitute our Board following the Annual Meeting:

Name	Age	Class	Director Since	Term Expires
B.G. Susan Robinson	47	1	2008	2010
Jeremy L. Curnock Cook (chairman)	59	1	1995	2010
Joseph M. Davie	69	2	2000	2011
Roger L. Hawley	56	2	2005	2011
Nelson L. Levy	67	3	1999	2012
Michael S. Perry	49	3	2005	2012

Biographical Information

Nominees

B.G. Susan Robinson has served as President and CEO and a director of Targeted Genetics since November 2008. Ms. Robinson served as our Vice President, Business Development from December 2001 to November 2008, and as our Senior Director, Business Development from March 2000 to December 2001. Prior to joining Targeted Genetics, Ms. Robinson served as Director, Business Development at Genzyme Molecular Oncology, a tracking stock of Genzyme Corporation. Prior to Genzyme, and over a nine-year period, Ms. Robinson held increasingly responsible positions in corporate development and corporate communications for two biotechnology companies. Ms. Robinson also serves as an officer and director of each of our wholly-owned subsidiaries, Genovo, Inc. and TGCF Manufacturing Corporation. Ms. Robinson holds a B.S. in Biology from Yale University.

Nelson L. Levy 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. Dr. Levy served as president of Fujisawa Pharmaceutical Company, the North American subsidiary of Japan's third-largest pharmaceutical company, from 1992 to 1993, as chief executive officer of CoreTechs Corporation 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. Dr. Levy currently serves as a director of several privately held companies and is on the scientific advisory boards of several public and privately held biotechnology and pharmaceutical companies. Dr. Levy holds a B.A. from Yale University, an M.D. from Columbia University College of Physicians and Surgeons and a Ph.D. from Duke University.

Michael S. Perry has served as a director of Targeted Genetics since November 2005. Dr. Perry is currently chief development officer at VIA Pharmaceuticals, Inc., a publicly held drug development company, and is also a venture partner with Bay City Capital, a venture capital firm. Dr. Perry served as chairman and chief executive officer of Extropy Pharmaceuticals, Inc., a privately held pediatric specialty pharmaceutical company, from 2003 to 2005. From 2002 to 2003, Dr. Perry served as president and chief executive officer of Pharsight Corporation, a publicly held software and consulting services firm. From 2000 to 2002, Dr. Perry served as global head of research and development for Baxter BioScience. From 1994 to 2000, Dr. Perry was president and chief executive officer of both SyStemix Inc. and Genetic Therapy Inc., two wholly owned subsidiaries of Novartis Corp. Prior to 1994, Dr. Perry held various management positions with Syntex Corporation, Schering-Plough Corporation and BioResearch Laboratories, Inc. Dr. Perry holds a Doctor of Veterinary Medicine, a Ph.D. in Biomedical Science-CardioPulmonary Pharmacology and a B.S. in Physics from the University of Guelph.

Continuing Directors

Jeremy L. Curnock Cook has served as a director of Targeted Genetics since July 1995 and as chairman of the Board since February 1998. Since August 2000, Mr. Cook has served as Chairman of International Bioscience Managers Limited. From August 2000 to August 2008, he served as executive chairman of Bioscience Managers Limited, a corporate and investment advisory firm. From 1987 to 2000, Mr. Cook was a director of Rothschild Asset Management Limited, a corporate and investment advisory company, and was responsible for the Rothschild Bioscience Unit. Mr. Cook founded the International Biochemicals Group in 1975, which was sold to Royal Dutch Shell in 1985, where he served as managing director until 1987. Mr. Cook currently serves as chairman of the board of directors of Eacom Timber Corporation, a publicly held timber trading company. He is also a director of Osteologix, Inc., a publicly held pharmaceutical company, and several publicly held and privately held companies outside the United States. Mr. Cook holds a M.A. in Natural Sciences from Trinity College, Dublin.

Joseph M. Davie has served as a director of Targeted Genetics since October 2000. Dr. Davie was employed by Biogen, Inc., a biopharmaceutical company, from 1993 until his retirement in 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. and CV Therapeutics, Inc., both publicly held biopharmaceutical companies, and several privately held companies. Dr. Davie holds an A.B., M.A. and Ph.D. in bacteriology from Indiana University and a M.D. from Washington University School of Medicine.

Roger L. Hawley has served as a director of Targeted Genetics since August 2005. Since February 2006, Mr. Hawley has served as chief executive officer of Zogenix, Inc., a privately held

specialty pharmaceutical company. From July 2003 until January 2006, Mr. Hawley served as executive vice president, commercial and technical operations of InterMune, Inc, a publicly held biopharmaceutical company. From October 2002 to June 2003, Mr. Hawley served as chief commercial officer at Prometheus Laboratories, Inc., a specialty pharmaceutical company. From 2001 to 2002, Mr. Hawley served as vice president/general manager of sales and marketing at Elan Pharmaceuticals, Inc., a publicly held biopharmaceutical company. From 1987 to 2001, Mr. Hawley held various management positions in corporate finance, sales, and marketing at GlaxoSmithKline, Inc. Prior to joining GlaxoSmithKline, Mr. Hawley spent 12 years in financial management with Marathon Oil Company. Since April 2007, Mr. Hawley has also served as a director of Cypress Bioscience, Inc., a publicly held biotechnology company. Mr. Hawley holds a B.S. in accounting from Eastern Illinois University.

Director Independence

The Board has determined that each of the following directors is an independent director as defined in the rules of the Nasdaq Capital Market, or NASDAQ: Mr. Cook, Dr. Davie, Mr. Hawley, Dr. Levy and Dr. Perry and, when he was serving on the Board, Mr. Bowman. Ms. Robinson is not independent because she is employed as our president and chief executive officer, and Ms. Parker was not independent when she was serving on the Board because she was employed as our president and chief executive officer.

The Board has also determined that each member of the three committees of the Board meets the independence requirements applicable to those committees, as prescribed by NASDAQ and the Securities and Exchange Commission, or SEC. In addition, the Board of Directors has determined that each member of the Audit Committee, Messrs. Cook and Hawley and Dr. Levy, meets the financial literacy requirements applicable to audit committees under NASDAQ rules and is an audit committee financial expert, as that term is defined by the SEC.

Board Committees

The Board maintains three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each year, committee and committee chair assignments are made at the Board of Directors meeting immediately following the annual meeting of shareholders. The composition of each committee is as follows:

Audit
 Roger L. Hawley*
 Jeremy L. Curnock Cook
 Nelson L. Levy

Compensation
 Michael S. Perry*
 Joseph M. Davie
 Roger L. Hawley

**Nominating and
 Corporate Governance**
 Joseph M. Davie*
 Jeremy L. Curnock Cook

* Chairman

Audit Committee. The Audit Committee operates under an amended and restated written charter adopted by the Board on September 22, 2008. A copy of this charter is also available on our web site at <http://www.targetedgenetics.com>. The Audit Committee has general responsibility for monitoring our finance, accounting, audit, review and attest activities and internal controls. In addition, the Audit Committee selects and engages our independent registered public accounting firm 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 report of the Audit Committee is set forth in the section entitled "Audit Committee Report" on page 19 of this proxy statement.

Compensation Committee. The Compensation Committee operates under an amended and restated written charter adopted by the Board on May 17, 2007. A copy of this charter is available on our web site at www.targetedgenetics.com. The Compensation Committee establishes salaries,

incentive compensation, option and stock grants and other forms of compensation for our executive officers and makes recommendations regarding the compensation for non-officer employees, non-employee directors and consultants. The Compensation Committee also supervises the administration of our various incentive compensation and benefit plans, including our stock plans, and recommends the establishment of policies relating to our incentive compensation and benefit plans.

Nominating and Corporate Governance Committee. The Nominating Committee operates under a written charter adopted by the Board on March 4, 2004. A copy of this charter is available on our web site at www.targetedgenetics.com. The Nominating Committee helps to ensure that the Board is appropriately constituted to meet its fiduciary obligations to the company and our shareholders, monitors and safeguards the independence of the Board and provides a leadership role in shaping our corporate governance.

Board and Committee Meetings

During fiscal year 2008, the Board held a total of fifteen meetings; the Audit Committee held a total of four meetings; the Compensation Committee held a total of three meetings and took additional action by unanimous written consent on two occasions; and the Nominating Committee held two meetings. During fiscal year 2008, each director attended at least 75% of the aggregate of all of the meetings of the Board and all of the meetings of the Board committees on which he or she served.

It is the practice of the Board for the non-management directors to meet without management present at each of the regularly scheduled meetings of the Board. If the Board convenes a special meeting, the non-management directors meet in executive session if circumstances warrant.

Director Nomination Process

In accordance with its charter, the Nominating and Corporate Governance Committee, or Nominating Committee, is responsible for developing criteria for identifying and evaluating nominees for the Board. The charter of the Nominating Committee describes the process by which candidates for possible inclusion in our recommended slate of director nominees are selected.

The 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, senior-level management, individuals personally known to the members of the Board, 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. At a minimum, a nominee must have significant management or leadership experience that is relevant to our business, as well as the highest standards of ethical conduct.

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 *Shareholder Proposals for the 2010 Annual Meeting*.

Subject to the superior rights, if any, of the holders of any class or series of stock that we may issue in the future having a preference over our common stock, 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 backgrounds, qualifications and skills of the shareholder-recommended candidates and, in the exercise of the Nominating Committee's independent judgment and in accordance with the policies and procedures adopted in its charter, will determine whether to recommend the shareholder-recommended candidates to the Board for inclusion in the list of candidates for election as director at the next shareholders meeting at which directors will be elected.

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.

Shareholder Communications with Board of Directors

Interested shareholders can send communications to our Board of Directors, a committee of our Board of Directors and individual directors by writing to them care of: Corporate Secretary, Targeted Genetics Corporation, 1100 Olive Way, Suite 100, Seattle, Washington 98101. The outside of the envelope should prominently indicate for whom the correspondence is intended. The Corporate Secretary will forward such communication to our Board of Directors, the appropriate committee of our Board of Directors or individual directors, as the case may be, unless the communication is unduly hostile, threatening, illegal or similarly inappropriate, in which case the Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

Director Attendance at Annual Meeting of Shareholders

It is our policy that our directors attend the annual meeting of shareholders. At the time of our 2008 annual meeting of shareholders, the Board was comprised of seven directors, all of whom attended the annual meeting.

Director Compensation

The following table sets forth the compensation provided in 2008 to each of our directors who were neither employees nor officers of Targeted Genetics. Directors who are our employees do not receive any fees for their services as directors.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)	Stock Awards ⁽¹⁾ (\$)	Option Awards ⁽¹⁾⁽²⁾ (\$)	Total
Jack L. Bowman ⁽³⁾	\$ 15,750	\$	\$	\$ 15,750
Jeremy L. Curnock Cook ⁽⁴⁾	55,000	24,943		79,943
Joseph M. Davie ⁽⁵⁾	46,000	16,628		62,628
Roger L. Hawley ⁽⁶⁾	44,750	16,628		61,378
Nelson L. Levy ⁽⁷⁾	41,000	16,628		57,628
Michael S. Perry ⁽⁸⁾	37,333	16,628		53,961

- (1) Reflects the dollar amount we are required under SEC rules to recognize for financial statement reporting purposes for 2008, in accordance with the provisions of Statement of Financial Accounting Standards, *Share-Based Payment*, or SFAS No. 123R. Pursuant to SEC rules, the amounts shown exclude the effect of estimated forfeitures. SFAS No. 123R requires us to estimate forfeiture when awards are granted and reduce estimated compensation expense accordingly, and in our audited consolidated financial statements, compensation expense is adjusted for estimated forfeitures. Except as otherwise specified with respect to actual forfeitures in 2008, the amounts shown in this table assume that none of the awards will be forfeited. See Note 10 of the consolidated financial statements contained in our annual report for the fiscal year ended December 31, 2008 regarding the assumptions underlying the valuation of equity awards. The amounts shown reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the executive officer. As of the date of this proxy statement, all options reflected in this table have an exercise price that is greater than the price of our common stock.

- (2) In 2008, we granted stock awards, consisting of restricted stock units, or RSUs, to directors rather than stock options. This column reflects the current year expense for stock options granted in prior years.
- (3) Mr. Bowman resigned from the Board effective May 15, 2008. Upon his resignation, Mr. Bowman forfeited 10,000 RSUs. At December 31, 2008, Mr. Bowman held outstanding options to purchase 13,500 shares of our common stock.
- (4) At December 31, 2008, Mr. Cook held outstanding options to purchase 15,000 shares of our common stock and outstanding stock awards, consisting of restricted stock units, or RSUs, for 15,000 shares of our common stock.
- (5) At December 31, 2008, Dr. Davie held outstanding options to purchase 13,500 shares of our common stock and outstanding stock awards, consisting of RSUs, for 10,000 shares of our common stock.
- (6) At December 31, 2008, Mr. Hawley held outstanding options to purchase 8,000 shares of our common stock and outstanding stock awards, consisting of RSUs, for 10,000 shares of our common stock.
- (7) At December 31, 2008, Dr. Levy held outstanding options to purchase 13,500 shares of our common stock and outstanding stock awards, consisting of RSUs, for 10,000 shares of our common stock.
- (8) At December 31, 2008, Dr. Perry held outstanding options to purchase 8,000 shares of our common stock and outstanding stock awards, consisting of RSUs, for 10,000 shares of our common stock.

See the section entitled *Management Executive Compensation Summary Compensation Table* for disclosure related to Ms. Parker and Ms. Robinson, each of whom served as both a director and an executive officer in 2008.

Cash Compensation for Non-Employee Directors. Non-employee directors are compensated for their service on the Board and on any committee of the Board, as well as their attendance at Board and committee meetings. We also reimburse our directors for reasonable travel expenses incurred for attending meetings. For each fiscal year, non-employee directors receive the following cash compensation:

	Annual Retainer	Attendance Fees (per meeting)
Board of Directors	\$15,000 (\$20,000 for the chairman)	\$1,500 (\$2,000 for the chairman)
Audit Committee	\$4,000 (\$5,000 for the chairman)	\$1,000 (\$1,500 for the chairman)
Compensation Committee	\$3,000 (\$4,000 for the chairman)	\$1,000 (\$1,500 for the chairman)
All other Board committees	\$1,000 (\$4,000 for the chairman)	\$1,000 (\$1,500 for the chairman)

Until November 2008, non-employee directors received the same compensation for telephonic and in-person meetings. As of November 2008, until the Board determines otherwise, non-employee directors are not compensated for attendance at telephonic meetings of the Board or Board committees.

Stock Awards for Non-Employee Directors. Under our stock compensation program for non-employee directors, new directors receive an initial grant of RSUs for 30,000 shares of common stock, which vest in three substantially equal installments on each of the first through third annual anniversaries of the date of grant. In the event of a change of control, all unvested RSUs under these initial grants will accelerate. Additionally, on an annual basis, we grant each director RSUs for 10,000 shares of common stock (15,000 shares for the chairman of the Board), which vest on the first anniversary of the date of grant. In the event of a change of control, all unvested RSUs under these annual grants will accelerate. These grants are generally approved at the annual Board of Directors meeting that immediately follows the annual meeting of shareholders.

The Board of Directors recommends a vote FOR the election of Dr. Levy, Dr. Perry and Ms. Robinson.

PROPOSAL TWO

AMENDMENT TO THE RESTATED ARTICLES OF INCORPORATION

TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

Our Board of Directors has approved, and recommends that our shareholders approve, an amendment to our Restated Articles of Incorporation in substantially the form attached to this proxy statement as *Annex A*. The current number of authorized shares of common stock of the Company is 45,000,000 shares. This proposed amendment would increase the number of authorized shares of our common stock to 445,000,000 shares.

Approval of this amendment requires the affirmative vote of the holders of shares representing a majority of our outstanding shares of common stock. If approved by our shareholders, the amendment will become effective upon its filing with the Secretary of State of Washington.

As of March 13, 2009, the record date, 20,447,198 shares of our common stock were outstanding. As of that date, we had reserved an aggregate of 2,547,944 shares of our common stock for (a) future issuance upon the exercise of options or vesting of RSUs outstanding under our stock plans, and (b) the exercise of options or vesting of RSUs that may be granted in the future under our stock plans. In addition, we had reserved 7,913,861 shares issuable upon the exercise of outstanding warrants. As of the record date, the number of authorized shares of our common stock was 45,000,000 shares, with 15,154,265 shares available for future issuance. As a result of the increase in authorized shares of our common stock to be effected by this proposed amendment, the number of authorized shares of our common stock would be 445,000,000 shares.

We propose to increase the number of authorized shares of our common stock by 400,000,000 to enable us to consider potential future issuances of stock that may be desirable or necessary to accommodate our business plan. We are currently seeking to fund our continuing operations by raising additional capital through issuances of common stock or securities convertible into common stock, and if we are successful in doing so, we will issue additional shares of common stock or securities convertible into common stock in connection with such capital-raising transactions. We may also issue additional shares of common stock in connection with the acquisition of complementary businesses or technologies, or in connection with providing grants of stock-based compensation (such as stock options or RSUs) to our employees or for other general corporate purposes. Except for: (a) options and RSUs outstanding under our stock plans, (b) warrants issued in 1999 to Alkermes, Inc. in connection with a technology license agreement, (c) warrants issued in connection with our January 2007 private placement, and (d) warrants issued in connection with our June 2007 private placement, which collectively total 8,978,907 issuable shares as of the record date, we currently do not have any definitive and present plans, commitments or understandings that would require the issuance of additional shares of common stock.

Once authorized, the additional shares of common stock may be issued upon the approval of our Board of Directors but without further approval of our shareholders, unless shareholder approval is required under any applicable law or rule of any securities market on which our securities are traded. The additional shares of common stock would have rights identical to those of our currently outstanding common stock. The proposed increase in the number of shares of authorized common stock, and any future issuance of the additional shares, will not affect the rights of our current holders of common stock, except for effects that are incidental to the increase, such as dilution that would result from any future issuance of additional authorized shares of common stock. The holders of our common stock are not entitled to preemptive rights with respect to the issuance of additional shares of common stock or securities convertible into or exercisable for common stock.

The increase in the number of authorized shares of common stock and the subsequent issuance of all or a portion of those shares could have the effect of delaying or preventing a change of control without further action by our shareholders. Subject to applicable law and stock exchange requirements,

we could issue shares of authorized and unissued common stock in one or more transactions that would make a change of control more difficult and therefore less likely. Any issuance of additional shares could have the effect of diluting the stock ownership and voting rights of an entity seeking to obtain control of Targeted Genetics.

Approval of the amendment to our Articles to increase the number authorized shares of common stock requires the affirmative vote of a majority of our outstanding shares of common stock. Abstentions and broker non-votes will have the same effect as votes against this proposal.

Our Board of Directors believes that approval of this amendment to our Articles is in the best interest of our shareholders and is necessary to provide us with the flexibility to pursue additional capital financing opportunities and licensing and other strategic transactions, to provide grants of stock-based compensation to our employees and to meet our general corporate needs. If this amendment is not approved, we will have insufficient shares of common stock authorized to complete these types of transactions in the future and to carry out our business plan.

The Board of Directors recommends that you vote FOR Proposal Two.

PROPOSAL THREE

AMENDMENT OF THE TARGETED GENETICS STOCK INCENTIVE PLAN

The Board has approved, subject to shareholder approval, an amendment to the Targeted Genetics Corporation Stock Incentive Plan (the Plan), that increases the number of shares of common stock authorized for issuance under the Plan by 2,000,000 shares, from 2,200,000 to 4,200,000 shares. The Plan was last amended and restated by the Board on March 26, 2007 and subsequently approved by our shareholders on May 17, 2007.

The Board believes that long-term incentive compensation programs align the interests of management, employees and our shareholders to create long-term shareholder value. The Board believes that plans such as the Plan increase our ability to achieve this objective, especially, in the case of the Plan, by giving us maximum flexibility to fashion future equity-based compensation by using stock appreciation rights, stock grants and stock units in addition to stock options. The Board believes that the increase in the number of shares issuable under the Plan is necessary to provide sufficient stock options, stock appreciation rights, stock grants and/or stock units to attract and retain the services of experienced and knowledgeable employees in our competitive biotechnology industry, and to preserve certain corporate income tax deductions that may become available to us.

The amendment to the Plan will be effective upon an affirmative vote of the holders of shares representing a majority of the votes cast at the Annual Meeting. If the amendment to the Plan to increase the shares available for issuance is not approved, then the Board will be limited in the amount of stock-based compensation it is able to provide. As of the record date, we had only 419,630 shares remaining available for grant under the Plan.

Description of the Plan

The following is a summary of the principal features of the Plan. The summary is not a complete description of the provisions in the Plan, however, and is qualified in its entirety by reference to the full text of the Plan. A copy of the Plan, as proposed to be approved, is attached to this proxy statement as *Annex B*.

Purpose

The Plan is intended to promote our success by providing a vehicle under which a variety of equity-based incentive awards can be granted to our employees, consultants and directors.

General

The Plan provides for the granting of stock options, stock appreciation rights, or SARs, stock grants and stock units (including RSUs), collectively referred to as Awards, to employees, consultants and directors who provide services to the Company, collectively referred to as participants. As of March 13, 2009, approximately 50 employees, directors and consultants are eligible to participate in the Plan.

If the amendment to the Plan is approved by our shareholders, the number of shares of our common stock authorized for Awards under the Plan will be 4,200,000 shares, which represents an increase of 2,000,000 shares. For purposes of determining the number of shares available for grant under the Plan, the number of shares issuable pursuant to all Awards (including SARs) granted under the Plan are subtracted from the number of shares authorized for issuance under the Plan. As of the record date, March 13, 2009, the number of shares available for grant under the Plan was 419,630 shares.

Administration of the Plan

The Plan can be administered by our Board or Compensation Committee or a combination of the two. In general, the members of the Compensation Committee must qualify as non-employee directors under Rule 16b-3 under the Securities Exchange Act of 1934, or the Exchange Act, for purposes of qualifying Awards as exempt from liability under Section 16(b) of Exchange Act, and as outside directors under Section 162(m) of the Internal Revenue Code, or the Code, for purposes of qualifying Awards as performance-based compensation under Section 162(m) of the Code. However, the Board may appoint one or more separate committees of the Board who need not qualify as non-employee directors or outside directors to administer the Plan with respect to Key Service Providers not covered by Section 16 of the Exchange Act or Section 162(m) of the Code. Unless our Board provides otherwise, the Compensation Committee will administer the Plan.

Subject to the terms of the Plan, the Compensation Committee has the sole discretion to determine the participants who may be granted Awards, the size and types of such Awards and the terms and conditions of such Awards. The Plan provides that, during any fiscal year, no person (other than non-employee directors) may be granted Awards covering more than 150,000 shares. However, during the fiscal year of a person's initial year of service with us (other than non-employee directors), the maximum number of shares that may be granted to such person pursuant to Awards is 500,000 shares. The Plan also provides that no non-employee director may be granted Awards covering more than 50,000 shares during any fiscal year; however, shares received pursuant to stock grants in lieu of the non-employee director's annual retainer fee(s) will not count against the 50,000 share annual limit.

Eligibility to Receive Awards

Our participants are eligible to be selected to receive one or more Awards. Only employees, directors and consultants are eligible for designation by the Compensation Committee, in its sole discretion, to receive Awards. The actual number of individuals who will receive Awards under the Plan cannot be determined because eligibility for participation in, and the granting of Awards under, the Plan is in the discretion of the Compensation Committee.

Stock Options

The Compensation Committee may grant nonstatutory stock options or incentive stock options, or ISOs (which are entitled to favorable tax treatment), or a combination of the two. ISOs may be granted only to employees of Targeted Genetics or employees of our subsidiaries. The number of shares covered by each stock option will be determined by the Compensation Committee. The Plan provides that ISOs can be granted up to the maximum number of shares reserved for issuance.

The price of shares of our common stock subject to each stock option is set by the Compensation Committee but cannot be less than 100% of the fair market value on the date of grant of the stock option. In addition, the exercise price of an ISO must be at least 110% of fair market value on the grant date if the employee owns stock possessing more than 10% of the total combined voting power of all classes of our stock or the stock of any of our subsidiaries.

The exercise price of each stock option must be paid in full at the time of exercise. The Compensation Committee also may permit payment through the tender of shares of our common stock that are already owned by the participant, or by any other means that the Compensation Committee determines to be consistent with the Plan's purpose and applicable laws. Any taxes required to be withheld must be paid by the participant at the time of exercise.

Options become exercisable at the times and on the terms established by the Compensation Committee in the applicable stock option agreement. If the stock option agreement does not specify when the shares subject to the stock option will vest and become exercisable, the Plan provides that shares will vest quarterly over four years. Options expire at the times established by the Compensation Committee, which generally will not be more than ten years after the date of grant (subject to the key service provider's continuous service).

Stock Appreciation Rights

The Compensation Committee determines the terms and conditions of each SAR. SARs may be granted in conjunction with a stock option, or may be granted on an independent basis. Subject to the limits described above, the number of shares covered by each SAR will be determined by the Compensation Committee. Upon exercise of a SAR, the participant will receive payment from us in an amount determined by multiplying: (i) the difference between the fair market value of a share on the date of exercise over the exercise price (fair market value of a share on the grant date), times (ii) the number of shares with respect to which the SAR is exercised. SARs may be paid in cash or shares of our common stock, as determined by the Compensation Committee. SARs are exercisable at the times and on the terms established by the Compensation Committee. The Plan provides that if the applicable SAR agreement does not specify when the shares subject to the SAR become exercisable, then the shares will vest over four years, with 25% of the shares vesting after one year of service and the remaining 75% vesting on a pro rata basis over the next 36 months.

Stock Grants and Stock Units

Stock grant awards are shares of our common stock that may or may not be subject to vesting, in accordance with the terms and conditions established by the Compensation Committee. Stock unit awards are bookkeeping entries that represent shares of our common stock that may or may not vest, in accordance with the terms and conditions established by the Compensation Committee. The Plan provides that if the applicable stock grant agreement or stock unit agreement does not specify when the shares will vest, then the shares subject to the award will vest in four equal annual installments. The holder of a stock grant awarded under the Plan has the same voting, dividend and other rights as the Company's other shareholders. Holders of stock units do not have voting rights until their stock units vest and stock is actually issued to the holder.

In determining whether a stock grant or stock unit award should be made and/or the vesting schedule for such award, the Compensation Committee may impose whatever conditions to vesting that it determines to be appropriate. For example, the Compensation Committee may determine to award a stock grant or stock units only if performance goals established by the Compensation Committee are satisfied.

Performance Goals

The Compensation Committee, in its discretion, may apply performance goals to a participant with respect to an Award. At the Compensation Committee's discretion, one or more of the following

performance goals may apply: (i) operating income; (ii) earnings before interest, taxes, depreciation and amortization or EBITDA; (iii) earnings; (iv) cash flow; (v) market share; (vi) sales or revenue; (vii) expenses; (viii) cost of goods sold; (ix) profit/loss or profit margin; (x) working capital; (xi) return on equity or assets; (xii) earnings per share; (xiii) economic value added; (xiv) stock price; (xv) price/earnings ratio; (xvi) debt or debt-to-equity; (xvii) accounts receivable; (xviii) writeoffs; (xix) cash; (xx) assets; (xxi) liquidity; (xxii) operations; (xxiii) intellectual property (e.g., patents); (xxiv) product development; (xxv) regulatory activity, including clinical trial activity; (xxvi) manufacturing, production or inventory; (xxvii) mergers and acquisitions or divestitures; (xxviii) business development activities; (xxix) financings; (xxx) cash burn; and/or (xxxi) cash horizon. The Compensation Committee also may use other performance goals, in its discretion.

Nontransferability of Awards

In general, Awards granted under the Plan may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution, and during the life of a participant, any Awards may be exercised only by the recipient. Notwithstanding the above, the Compensation Committee (or the Board, in the case of Awards granted to non-employee directors) may, in its discretion, permit Awards to be transferred to an individual or entity other than Targeted Genetics subject to such restrictions as the Compensation Committee or the Board may impose.

Dividend Equivalents

Recipients of Awards may, if so determined by the Compensation Committee (or by the Board in case of Awards to non-employee directors), be entitled to receive cash or stock dividends, or cash payments in amounts equivalent to cash or stock dividends declared with respect to shares of our common stock. The Compensation Committee or the Board may also provide that such cash or stock dividends shall be deemed to have been reinvested in additional shares of common stock or otherwise reinvested.

Corporate Transactions

In the event of certain corporate transactions, and subject to the applicable Award agreement, all outstanding Awards will be subject to the applicable agreement of merger or reorganization, which may provide for the assumption, substitution or continuation of outstanding awards, exchange for other property, accelerated vesting, or cancellation without consideration. Awards that are not assumed, substituted or continued will terminate upon consummation of the corporate transaction.

Awards Under the Plan

Awards under the Plan will be made at the discretion of the Compensation Committee. The Compensation Committee has not made any decisions on the amount and type of Awards that are to be made in future years under the Plan.

Amendment and Termination of the Plan

Our Board generally may amend or terminate the Plan at any time and for any reason; provided, however, that any such amendment shall be subject to the approval of the shareholders to the extent required by applicable law or regulation. Unless sooner terminated by our Board, the Plan will terminate on May 17, 2017.

Number of Awards Granted

The Awards that any participant may receive under the Plan in the future, and the number of shares covered by any such Award, is in the discretion of the Compensation Committee or the Board,

and therefore cannot be determined in advance. The following table sets forth (i) the dollar value of the RSUs and stock awards awarded under the Plan during 2008, and (ii) the aggregate number of shares of RSUs and stock awards awarded under the Plan during 2008. No stock options were granted during 2008.

NEW PLAN BENEFITS

Targeted Genetics Corporation Stock Incentive Plan

Name of Individual or Group	Dollar Value (\$) ⁽¹⁾	Units of Restricted Stock Awarded (#)
B.G. Susan Robinson President, Chief Executive Officer and Director	\$ 7,700	35,000
H. Stewart Parker, Former President, Chief Executive Officer and Director ⁽²⁾	44,000	200,000
David G. Poston Vice President, Finance, Chief Financial Officer, Treasurer and Secretary	7,700	35,000
Barrie J. Carter, Former Executive Vice President and Chief Scientific Officer ⁽³⁾	7,700	35,000
All current executive officers, as a group (2 persons)	15,400	70,000
All current directors who are not executive officers, as a group (5 persons)	12,100	55,000
All employees who are not executive officers, as a group (84 persons)	68,640	312,000

(1) The dollar values set forth in this table reflects the value of RSUs granted to each named person for 2008, based on the closing price of \$0.22 for our common stock on December 31, 2008.

(2) Ms. Parker resigned from the Company in November