Table of Contents

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2004**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____to _____

Commission file number 000-49616

HALOZYME THERAPEUTICS, INC.

(Exact name of small business issuer as specified in its charter)

Nevada	**88-0488686**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

11588 Sorrento Valley Road, Suite 17, San Diego, California 92121

(Address of principal executive offices)

(858) 794-8889

(Issuer's telephone number)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 47,630,401 shares issued and outstanding as of November 8, 2004.

Transitional Small Business Disclosure Format (Check one):

Yes [ ] No [X]

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

HALOZYME THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEET — UNAUDITED
AS OF SEPTEMBER 30, 2004

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 3,480,301
Prepaid expenses and other current assets	130,390
Total current assets	3,610,691
PROPERTY AND EQUIPMENT, net	159,322
OTHER ASSETS	15,106
Total Assets	$ 3,785,119
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 1,923,482
Accrued expenses	67,949
Total current liabilities	1,991,431
COMMITMENTS AND CONTINGENCIES	—
STOCKHOLDERS' EQUITY:	
Common stock, $0.001 par value; 100,000,000 shares authorized; 39,704,686 shares issued and outstanding	39,705
Additional paid-in-capital	12,346,752
Deficit accumulated during the development stage	(10,592,769)
Total Stockholders' Equity	1,793,688
Total Liabilities and Stockholders' Equity	$ 3,785,119

The accompanying notes are an integral part of these financial statements.

HALOZYME THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS — UNAUDITED
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 AND FROM INCEPTION TO SEPTEMBER 30, 2004

	Three Months Ended		Nine Months Ended		Cumulative from inception (February 26, 1998) to 2004
	2004	2003	2004	2003	
EXPENSES:					
Research and development	$ 2,598,335	$ 254,903	$ 4,816,492	$ 764,007	$ 7,226,536
General and administrative	664,896	153,327	1,743,417	268,489	2,944,562
Total Expenses	3,263,231	408,230	6,559,909	1,032,496	10,171,098
Other income (expense), net	10,086	(30,784)	(52,355)	(80,985)	(421,671)
LOSS BEFORE INCOME TAXES	(3,253,145)	(439,014)	(6,612,264)	(1,113,481)	(10,592,769)
Income Tax Expense	—	—	—	—	—
NET LOSS	$ (3,253,145)	$ (439,014)	$ (6,612,264)	$(1,113,481)	$(10,592,769)
Net loss per share, basic and diluted	$ (0.08)	$ (0.05)	$ (0.21)	$ (0.14)	
Shares used in computing net loss per share, basic and diluted	39,573,312	8,196,362	31,512,015	8,196,362	

The accompanying notes are an integral part of these financial statements.

HALOZYME THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 AND FROM INCEPTION TO SEPTEMBER 30, 2004

	2004	2003	Cumulative from inception (February 26, 1998) to 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(6,612,264)	$(1,113,481)	$(10,592,769)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	84,002	55,295	292,892
Issuance of common stock for goods and services	33,000	5,000	135,245
Issuance of common stock for license	—	—	2,330
Issuance of common stock for accrued interest on notes	—	—	99,764
Beneficial conversion feature on 2003 notes	—	—	306,754
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	(132,733)	(18,369)	(145,496)
Accounts payable and accrued expenses	1,717,991	120,617	1,991,431
Net cash provided by operating activities	(4,910,004)	(950,938)	(7,909,849)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(112,420)	(59,168)	(429,115)
Net cash used in investing activities	(112,420)	(59,168)	(429,115)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of notes	—	923,870	1,272,000
Proceeds from exercise of warrants	128,999	—	128,999
Contributed capital — net	7,870,146	—	10,418,266
Net cash provided by financing activities	7,999,145	923,870	11,819,265
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,976,721	(86,236)	3,480,301
CASH AND CASH EQUIVALENTS, beginning of period	503,580	88,910	—
CASH AND CASH EQUIVALENTS, end of period	$ 3,480,301	$ 2,674	$ 3,480,301
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for income taxes	$ —	$ —	$ —
Interest paid	$ —	$ —	$ —
Non cash investing and financing activities:			
Conversion of contributed capital to common stock	$ 7,870,146	$ —	$ 10,418,266
Conversion of notes payable to common stock	$ —	$ —	$ 1,272,000
Common stock issued for property and equipment	$ —	$ —	$ 3,099
Series A preferred stock issued for property and equipment	$ —	$ —	$ 20,000

The accompanying notes are an integral part of these financial statements.

Halozyme Therapeutics, Inc.
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

1. Organization and Business

Halozyme is a development stage biopharmaceutical company dedicated to the development and commercialization of recombinant human enzymes for the infertility, ophthalmology, and oncology markets.

Halozyme was founded on February 26, 1998. The Company's operations to date have been limited to organizing and staffing the Company, acquiring, developing and securing its technology and undertaking product development for a limited number of product candidates. As the Company has not begun principal operations of commercializing a product candidate, the financial statements have been presented as a development stage company.

Effective March 11, 2004, pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated January 28, 2004, among privately held DeliaTroph Pharmaceuticals, Inc. dba Hyalozyme Therapeutics, Inc. ("Halozyme"), Global Yacht Services, Inc. ("Global"), a publicly traded Nevada corporation and Hyalozyme Acquisition Corporation ("Merger Sub"), a wholly owned subsidiary of Global, the Merger Sub merged with and into Halozyme, with Halozyme the survivor for accounting purposes.

Although Global acquired Halozyme as a result of the Merger, the shareholders of Halozyme held a majority of the voting interest in the combined enterprise. Additionally, the Merger resulted in Halozyme's management and Board of Directors assuming operational control of Global.

The following summary lists the structure of the Merger and matters completed in connection therewith:

- On January 28, 2004, pursuant to an investment round completed simultaneously with the signing of the Merger Agreement, Halozyme raised equity capital of approximately $8.1 million.
- The shareholders of Global amended and restated Global's Articles of Incorporation to change Global's corporate name to Halozyme Therapeutics, Inc., increased the authorized number of shares of common stock to 100 million, and authorized 20 million shares of preferred stock.
- Global issued 35,521,906 shares of its restricted common stock, 6,380,397 options and 11,742,665 warrants to purchase shares of its common stock to the shareholders of Halozyme in exchange for 100% of their issued and outstanding common stock, options and warrants to purchase Halozyme's common stock.
- A total of 4,296,362 shares of Global's outstanding common stock were redeemed by Global from three shareholders in exchange for $42,303, or approximately $0.01 per share.
- Global's shareholders owned approximately 10% of the issued and outstanding shares of Halozyme's common stock, based on 39,421,906 shares outstanding after the Merger.

The full text of the Merger Agreement may be found in Exhibit A to Global Yacht's definitive Schedule 14C Information Statement, as filed with the Securities and Exchange Commission on February 17, 2004.

The Merger has been treated as a re-capitalization of Halozyme. Accordingly, the financial statements reflect the historical activity of Halozyme with the capital structure of Global. Prior to the Merger, Global had limited operations. On March 11, 2004, Global changed its name to Halozyme Therapeutics, Inc.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. and with the rules and regulations of the Securities and Exchange Commission related to a quarterly report on Form 10-QSB. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The interim financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented. Except as otherwise disclosed, all such adjustments are of a normal recurring nature.

Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2004 or for any future period. For further information, see the financial statements and disclosures thereto for the year ended December 31, 2003 included in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and other regulatory reports and filings made with the Securities and Exchange Commission.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Stock-Based Compensation

In December 2002, Statement of Financial Accounting Standards (“SFAS”) No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123* was issued. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation from the intrinsic value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees* . In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation* . The Company adopted the disclosure requirements of SFAS No. 148 effective December 31, 2002. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting prescribed in APB No. 25 and, accordingly, does not recognize compensation expense for stock option grants made at an exercise price equal to or in excess of the fair value of the stock at the date of grant. Deferred compensation is recognized and amortized on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* , over the vesting period of the related options.

Had compensation cost for the Company’s outstanding employee stock options been determined based on the fair value at the grant dates for those options consistent with SFAS No. 123, the Company’s net loss and basic and diluted net loss per share, would have been changed to the following pro forma amounts:

	Three Months Ended		Nine Months Ended	
In Thousands	**2004**	**2003**	**2004**	**2003**
Net loss, as reported	$(3,253)	$(439)	$(6,612)	$(1,113)
Deduct: Total stock-based employee Compensation expense determined under Fair value based method for all awards	(599)	—	(1,395)	—

In Thousands	Three Months Ended 2004	Three Months Ended 2003	Nine Months Ended 2004	Nine Months Ended 2003
Pro forma net loss	$(3,852)	$ (403)	$(8,007)	$(1,113)
Net loss per share, basic and diluted, as reported	$ (0.08)	$(0.05)	$ (0.21)	$ (0.14)
Pro forma net loss per share, basic and diluted	$ (0.10)	$(0.05)	$ (0.25)	$ (0.14)

SFAS No. 123 pro forma information regarding net loss is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock-based employee compensation under the fair value method prescribed in SFAS No. 123. The fair value of the options was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions for the three and nine months ended September 30, 2004 and 2003: weighted-average risk-free interest rate of 3.0%; a dividend yield of 0%; a stock price volatility of 100%; and a weighted-average life of the option of 48 months.

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. Stock option grants are expensed over their respective vesting periods.

The Company accounts for options issued to nonemployees under SFAS No. 123 and Emerging Issues Task Force (“EITF”) Issue 96-18, *Accounting for Equity Investments that are Issued to Other than Employees for Acquiring or in Conjunction with Selling Goods or Services* . As such, the value of such options is periodically remeasured and income or expense is recognized during their vesting terms.

2. Property and Equipment

	September 2004	December 2003
Research equipment	$ 233,669	$ 195,534
Office equipment and furniture	86,978	59,687
Leasehold improvements	131,567	84,573
	452,214	339,794
Less accumulated depreciation and amortization	(292,892)	(208,890)
	$ 159,322	$ 130,904

3. Net Loss Per Common Share

In accordance with SFAS No. 128, *Earnings Per Share* , and SEC Staff Accounting Bulletin (“SAB”) No. 98, basic net loss per common share is computed by dividing net loss for the period by the weighted average number of common shares outstanding during the period. Under SFAS No. 128, diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and common equivalent shares, such as stock options and warrants, outstanding during the period. Such common equivalent shares have not been included in the Company’s computation of net loss per share as their effect would have been anti-dilutive.

	Three Months Ended		Nine Months Ended	
	2004	2003	2004	2003
Numerator — Net loss	$ (3,253,145)	$ (439,014)	$ (6,612,264)	$(1,113,481)
Denominator — Weighted average shares outstanding	39,573,312	8,196,362	31,512,015	8,196,362
Net loss per share	$ (0.08)	$ (0.05)	$ (0.21)	$ (0.14)
Incremental common shares (not included because of their anti-dilutive nature)				
Employee stock options	7,013,397	—	7,013,397	—
Warrants to outside parties	51,334	—	51,334	—
Warrants on notes	658,349	—	658,349	—
Series B warrants	288,259	—	288,259	—
Series C warrants	10,461,943	—	10,461,943	—
Potential common equivalents	18,473,282	—	18,473,282	—

4. Subsequent Event

On October 12, 2004, the Company entered into definitive securities purchase agreements with certain institutional and accredited investors for a $13.9 million private placement of newly issued shares of common stock and the concurrent issuance of warrants for the purchase of additional shares of common stock. On October 13, 2004, the transaction closed and the Company received net proceeds of approximately $12.9 million. Our September 30, 2004 pro forma cash and cash equivalents were $16.4 million and pro forma stockholders' equity was $14.7 million as a result of this private placement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion, including, without limitation, statements concerning our market opportunities, expected development goals and priorities, and expense trends and capital resource requirements, contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the caption "Risk Factors." The interim financial statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2003 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and other regulatory reports and filings made with the Securities and Exchange Commission.

Overview – Halozyme was founded on February 26, 1998. We are a development stage biopharmaceutical company dedicated to the development and planned commercialization of recombinant human enzymes for the infertility, ophthalmology, and oncology communities. Our products under development are based on intellectual property covering the family of human enzymes known as hyaluronidases. Hyaluronidases are enzymes (proteins) that break down hyaluronic acid, which is a naturally occurring substance in the human body. Currently, we have no products and all of our potential products are either in the discovery, pre-clinical, pre-NDA or pre-510(k) stage. It may be years, if ever, before we are able to obtain the necessary regulatory approvals necessary to generate meaningful revenue from the sale of these potential products. In addition, we have never generated any revenue and we have had operating and net losses each year since inception. We have accumulated a deficit of $10,592,769 from inception through September 30, 2004.

Our technology is based on recombinant human PH20 (rHuPH20), a human synthetic version of hyaluronidase that

degrades hyaluronic acid, a space-filling, “gel”-like substance that is a major component of tissues throughout the body, such as the skin and eyes. The PH20 enzyme is a naturally occurring enzyme that digests hyaluronic acid to temporarily break down the gel, thereby facilitating the penetration and dispersion of other drugs that are injected in the skin or in the muscle.

Bovine and ovine derived hyaluronidases have been used in multiple therapeutic areas, including in vitro fertilization and ophthalmology, where a FDA-approved bovine version was used as a drug delivery agent to enhance dispersion of local anesthesia for cataract surgery for over 50 years. Despite the multiple potential therapeutic applications for hyaluronidase, there are problems with existing and potential animal derived product offerings, including:

- *Impurity:* Most such commercial enzyme preparations are crude extracts from cattle testes and are typically less than 1-5% pure.

- *Prion disease:* Cattle testes are an organ with the highest concentration of hyaluronidase, but also with the highest levels of a protein implicated in the development of neurodegenerative disorders associated with prion disease, such as “Mad Cow Disease.”

- *Immunogenicity:* Hyaluronidases can also be found in bacteria, leeches, certain venoms, and marine organisms. Very few companies are pursuing clinical development of any of these enzymes. Regardless, all such preparations are non-human, and are therefore likely to elicit potent immune reactions, possess endotoxin, or have some of the same defects as slaughterhouse derivations.

There have been successes in replacing animal product derived drugs with human recombinant biologics, as in the case of insulin, Pulmozyme and human growth hormone. Our objective is to execute this recombinant human enzyme replacement strategy by applying our products under development to key markets in multiple therapeutic areas, beginning with in vitro fertilization and ophthalmology.

As an alternative to the existing animal product derived drugs, our proprietary technology, as evidenced by our exclusive license with the University of Connecticut of the patent covering the DNA sequence which encodes human hyaluronidase, may both expand existing markets and create new ones. Gaps in existing hyaluronidase offerings may create demand for our solution.

Revenues

We have not generated any revenues from product sales since our inception on February 26, 1998. Product revenue will depend on our ability to obtain regulatory approvals for and successfully commercialize our product candidates.

Costs and Expenses

Research and Development. Our research and development expenses consist primarily of costs associated with the development and manufacturing of our product candidates, compensation and other expenses for research and development personnel, supplies and materials, costs for consultants and related contract research, facility costs, amortization and depreciation. We charge all research and development expenses to operations as they are incurred. Our research and development activities are primarily focused on the development of our Cumulase™ and Enhanze SC™ product candidates which are both based on our recombinant human PH20 (rHuPH20) enzyme, a human synthetic version of hyaluronidase. We are also developing Chemophase™, which is also based on our recombinant PH20 enzyme, and are currently conducting pre-clinical studies in animal models.

Since our inception through September 30, 2004, we incurred research and development costs of $7.2 million. From January 1, 2002 through September 30, 2004, approximately 90% of our research and development costs were associated with the research and development of our recombinant human PH20 enzyme used in our Cumulase™ and Enhanze SC™ product candidates. Due to the uncertainty in obtaining FDA approval, our reliance on third parties, and competitive pressures, we are unable to estimate with any certainty the additional costs we will incur in the continued development of our Cumulase™, Enhanze SC™, and Chemophase™ product candidates for commercialization. However, we expect our research and development costs to increase substantially if we are able to advance our product candidates into later stages of clinical development.

Clinical development timelines, likelihood of success, and total costs vary widely. Although we are currently focused primarily on advancing Cumulase™, Enhanze SC™, and Chemophase™, we anticipate that we will make determinations as to which research and development projects to pursue and how much funding to direct to each project on an on-going basis in response to the scientific and clinical progress of each product candidate and other market developments.

Product candidate completion dates and costs vary significantly for each product candidate and are difficult to estimate. The lengthy process of seeking regulatory approvals, and the subsequent compliance with applicable regulations, require the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining, regulatory approvals could cause our research and development expenditures to increase and, in turn, have a material adverse effect on our results of operations. While we have recently filed a 510(k) application for our Cumulase™ product candidate in September, 2004, and we anticipate filing a NDA for our Enhance SC™ product candidate in the first quarter of 2005, and an IND for our Chemophase™ product candidate in the second quarter of 2005, we cannot be certain when or if any net cash inflow from these products or any of our other development projects will commence.

General and Administrative. General and administrative expenses consist primarily of compensation and other expenses related to our corporate operations and administrative employees, legal fees and other professional services expenses.

Other Income and Expense, Net. Other income and expense, net consists primarily of interest income earned on our cash and cash equivalents and interest expense associated with our short-term notes payable. Other income and expense, net also includes the liabilities assumed as a result of the Merger.

Critical Accounting Policies and Estimates – Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S., or GAAP for interim information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We state these accounting policies in the notes to the financial statements in our Annual Report on Form 10-KSB for the year ended December 31, 2003. Actual results may differ from these estimates under different assumptions or conditions.

Results of Operations – Comparison of Three Months Ended September 30, 2004 and 2003

Revenues – Halozyme has generated no revenues since its inception on February 26, 1998.

Research and Development – Research and development expenses were $2,598,000 for the three months ended September 30, 2004 compared to $255,000 for the three months ended September 30, 2003. Our research and development expenses consisted primarily of costs associated with the development and manufacturing of our product candidates, compensation and other expenses for research and development personnel, supplies and materials, costs for consultants and related contract research, facility costs, amortization and depreciation. Research and development expenses increased by $2,343,000 due primarily to completion of Cumulase™ 510(k) requirements, the substantial completion of Enhanze SC™ chemistry manufacturing and controls (CMC) and toxicology work, the hiring of additional research and development personnel, and contract manufacturing costs for development and production of our rHuPH20 enzyme for research, clinical and potential commercial use. We expect research and development costs to continue to increase in future periods as we increase our research efforts and continue to develop and manufacture our first two product candidates.

General and Administrative – General and administrative expenses were $665,000 for the three months ended September 30, 2004 compared to $153,000 for the three months ended September 30, 2003. General and administrative expenses increased by $512,000 due to the hiring of additional administrative personnel and the increased legal and accounting fees associated with becoming a public reporting entity. We anticipate that

compliance with provisions of the Sarbanes-Oxley Act of 2002, including Section 404 relating to audits of our internal controls, will increase our general and administrative costs in future periods.

Other Income and Expense – Other income was $10,000 for the three months ended September 30, 2004 compared to $31,000 in other expense for the three months ended September 30, 2003. The increase in other income was due to an increase in interest income relating to our higher cash and cash equivalents resulting from the completion of an $8.1 million capital investment during January 2004. The interest expense during the 2003 quarter was due to interest expense on outstanding notes payable.

Net Loss – Net loss for the three months ended September 30, 2004 was $3,253,000, or $0.08 per common share, compared to $439,000, or $0.05 per common share for the three months ended September 30, 2003. The increase in net loss was due to an increase in operating expenses, reflecting our increased research and development efforts and additional personnel.

Comparison of Nine Months Ended September 30, 2004 and 2003

Revenues – Halozyme has generated no revenues since its inception on February 26, 1998.

Research and Development – Research and development expenses were $4,816,000 for the nine months ended September 30, 2004 compared to $764,000 for the nine months ended September 30, 2003. Our research and development expenses consisted primarily of costs associated with the development and manufacturing of our product candidates, compensation and other expenses for research and development personnel, supplies and materials, costs for consultants and related contract research, facility costs, amortization and depreciation. Research and development expenses increased by $4,052,000 due primarily to completion of Cumulase™ 510(k) requirements, the substantial completion of Enhanze SC™ chemistry manufacturing and controls (CMC) and toxicology work, the hiring of additional research and development personnel, and contract manufacturing costs for development and production of our rHuPH20 enzyme for research, clinical, and potential commercial use. We expect research and development costs to continue to increase in future periods as we increase our research efforts and continue to develop and manufacture our first two product candidates.

General and Administrative – General and administrative expenses were $1,743,000 for the nine months ended September 30, 2004 compared to $268,000 for the nine months ended September 30, 2003. General and administrative expenses increased by $1,475,000 due to the hiring of additional administrative personnel and the increased legal and accounting fees associated with becoming a public reporting entity. We anticipate that compliance with provisions of the Sarbanes-Oxley Act of 2002, including Section 404 relating to audits of our internal controls, will increase our general and administrative costs in future periods.

Other Income and Expense – Other expense was $52,000 for the nine months ended September 30, 2004 compared to $81,000 for the nine months ended September 30, 2003. The increase in other expense was due to the assumption of $84,000 in liabilities as a result of the Merger offset by an increase in interest income relating to our higher cash and cash equivalents resulting from the completion of an $8.1 million capital investment during January, 2004. The interest expense during 2003 was due to interest expense on outstanding notes payable.

Net Loss – Net loss for the nine months ended September 30, 2004 was $6,612,000, or $0.21 per common share, compared to $1,113,000, or $0.14 per common share for the nine months ended September 30, 2003. The increase in net loss was due to an increase in operating expenses, reflecting our increased research and development efforts and additional personnel.

Liquidity and Capital Resources – As of September 30, 2004, cash and cash equivalents were $3,480,000 versus $504,000 as of December 31, 2003, an increase of $2,976,000. This increase resulted primarily from the sale of common stock for approximately $7,999,000, net of issuance costs during the nine months ended September 30, 2004, offset by our net loss for the nine months ended September 30, 2004.

Net cash used in operations was $4,910,000 during the first nine months of 2004 compared to $951,000 of cash used in operations during the first nine months of 2003. This increase was due to an increase in personnel and our increased research and development efforts.

Net cash used in investing activities was $112,000 during the first nine months of 2004 compared to $59,000 during the first nine months of 2003. This was due to the increased purchase of property and equipment and leasehold improvements during 2004.

Net cash provided by financing activities was $7,999,000 during the first nine months of 2004 versus $924,000 during the first nine months of 2003. In January, 2004, we sold common stock for approximately $8,057,000, or $7,670,000 net of issuance costs. Additionally, we received approximately $329,000 in proceeds from stock option and warrant exercises during the first nine months of 2004. During the first nine months of 2003, we received $924,000 from the issuance of notes and the related accrued interest on those notes.

We expect our cash requirements to increase significantly in the foreseeable future as we continue to increase our research and development for, seek regulatory approvals of, and develop and manufacture our current product candidates. As we expand our research and development efforts and pursue additional product opportunities, we anticipate significant cash requirements for hiring of personnel, capital expenditures and investment in additional internal systems and infrastructure.

The amount and timing of cash requirements will depend on regulatory and market acceptance of our product candidates, if any, and the resources we devote to researching, developing, manufacturing, commercializing and supporting our product candidates.

On October 12, 2004, the Company entered into definitive securities purchase agreements with certain institutional and accredited investors for a $13.9 million private placement of newly issued shares of common stock and the concurrent issuance of warrants for the purchase of additional shares of common stock. On October 13, 2004, the transaction closed and the Company received net proceeds of approximately $12.9 million. We believe that our current cash and cash equivalents will be sufficient to fund our operations until at least the end of 2005. Until we can generate significant cash from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from the proceeds from our recent private financing. We may finance future cash needs through the sale of other equity securities, the exercise of our callable warrants, strategic collaboration agreements and debt financing. We cannot be certain that our existing cash and cash equivalents will be adequate or that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to us or our stockholders. Having insufficient funds may require us to delay, scale back or eliminate some or all of our research and development programs or delay the launch of our product candidates. If we raise additional funds by issuing equity securities, substantial dilution to existing stockholders would likely result. If we raise additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business.

Off-Balance Sheet Arrangements – As of September 30, 2004, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Caution on Forward-Looking Statements

Any statements in this report about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. You can identify these forward-looking statements by the use of words or phrases such as “believe,” “may,” “could,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “seek,” “plan,” “expect,” “should,” or “would.” Among the factors that could cause actual results to differ materially from those indicated in the forward-looking statements are risks and uncertainties inherent in our business including, without limitation, difficulties or delays in development, testing, obtaining

regulatory approvals, manufacturing and marketing our product candidates; the progress and timing of our clinical trials; potential unexpected adverse side effects or inadequate therapeutic efficacy of our product candidates that could delay or prevent product development or commercialization, or that could result in product recalls or product liability claims; the scope and validity of patent protection for our products and our ability to commercialize our product candidates without infringing the patent rights of others; competition from other pharmaceutical or biotechnology companies; our ability to obtain additional financing to support our operations; and other risks detailed in our Annual Report on Form 10-KSB for the year ended December 31, 2003 filed with the Securities and Exchange Commission on March 30, 2004 and our amended SB-2 Registration Statement filed with the Securities and Exchange Commission on July 23, 2004 and the discussions set forth below under the caption "Risk Factors."

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

RISK FACTORS

The following information sets forth factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this quarterly report and those we may make from time to time. For a more detailed discussion of the factors that could cause actual results to differ, see the Risk Factors section in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and in our amended SB-2 Registration Statement filed with the Securities and Exchange Commission on July 23, 2004.

Risks Related To Our Business

We have not generated any revenue from product sales to date; we have a history of net losses and negative cash flow, and may never achieve or maintain profitability.

We have not generated any revenue from product sales to date and may never generate revenues from product sales in the future. Even if we do achieve significant revenues from product sales, we expect to incur significant operating losses over the next several years. We have never been profitable, and may never become profitable. Through September 30, 2004, we have incurred aggregate net losses of $10,592,769.

We may need to raise funds in the next twelve months, and our current capital structure may make us less attractive to investors.

During the next twelve months we may need to raise additional capital to complete the steps required to obtain FDA approval for any of our products. If we engage in acquisitions of companies, products, or technology in order to execute our business strategy, we may need to raise additional capital. We may be required to raise additional capital in the future through collaborative agreements, private financings, and various other equity or debt financings. Our capital structure is fairly complex, due largely to the fact that we have issued warrants to purchase up to 14,146,703 shares of our common stock. We may redeem 8,094,829 of these warrants for $0.01 per share under certain circumstances. Considering our stage of development and the nature of our capital structure, if we are required to raise additional capital in the future, the additional financing may not be available on favorable terms, or at all. If we are successful in raising additional capital, a substantial number of additional shares will be outstanding and would dilute the ownership interest of our investors.

If we do not receive and maintain regulatory approvals for our product candidates, we will not be able to commercialize our products, which would substantially impair our ability to generate revenues.

None of our product candidates have received regulatory approval from the FDA or from any similar national regulatory agency or authority in any other country in which we intend to do business. Approval from the FDA is necessary to manufacture and market pharmaceutical products in the United States. Many other countries including major European countries and Japan have similar requirements.

During September, 2004, we filed a 510(k) application for Cumulase™ and we intend to file a NDA for Enhanze SC™ in the first quarter of 2005. The processes for obtaining FDA approval are extensive, time-consuming and costly, and there is no guarantee that the FDA will approve our recently filed 510(k) application or any NDAs that we intend to file with respect to any of our product candidates, or that the timing of any such approval will be appropriate for our product launch schedule and other business priorities, which are subject to change. We have not currently begun the NDA approval process for any of our potential products, and we may not be successful in obtaining such approvals for any of our potential products.

If we are unsuccessful in our clinical trials, we will not receive regulatory approvals for our product candidates.

Clinical testing of pharmaceutical products is also a long, expensive and uncertain process. Even if initial results of pre-clinical studies or clinical trial results are positive, we may obtain different results in later stages of drug development, including failure to show desired safety and efficacy.

The clinical trials of any of our product candidates could be unsuccessful, which would prevent us from obtaining regulatory approval and commercializing the product. FDA approval can be delayed, limited or not granted for many reasons, including, among others:

- FDA officials may not find a product candidate safe or effective to merit an approval;
- FDA officials may not find that the data from pre-clinical testing and clinical trials justify approval, or they may require additional studies that would make it commercially unattractive to continue pursuit of approval;
- the FDA may not approve our manufacturing processes or facilities, or the processes or facilities of our contract manufacturers or raw material suppliers;
- the FDA may change its approval policies or adopt new regulations; and
- the FDA may approve a product candidate for indications that are narrow or under conditions that place our product at a competitive disadvantage, which may limit our sales and marketing activities or otherwise adversely impact the commercial potential of a product.

If the FDA does not approve our product candidates in a timely fashion on commercially viable terms or we terminate development of any of our product candidates due to difficulties or delays encountered in the regulatory approval process, it will have a material adverse impact on our business and we will be dependent on the development of our other product candidates and/or our ability to successfully acquire other products and technologies.

In addition, we intend to market certain of our products, and perhaps have certain of our products manufactured, in foreign countries. The process of obtaining approvals in foreign countries is subject to delay and failure for similar reasons.

If our product candidates are approved by the FDA but do not gain market acceptance, our business will suffer because we may not be able to fund future operations.

A number of factors may affect the market acceptance of any of our existing products or any other products we develop or acquire in the future, including, among others:

- the price of our products relative to other therapies for the same or similar treatments;
- the perception by patients, physicians and other members of the health care community of the effectiveness and safety of our products for their prescribed treatments;
- our ability to fund our sales and marketing efforts;
- the effectiveness of our sales and marketing efforts; and
- the introduction of generic competitors.

We have never successfully marketed any products, and we may not be successful in marketing and promoting our existing product candidates or any other products we develop or acquire in the future.

In addition, our ability to market and promote our product candidates will be restricted to the labels approved by the FDA. If the approved labels are restrictive, our sales and marketing efforts, as well as market acceptance and the commercial potential of our products may be negatively affected.

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

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

We are currently in the process of developing our sales, marketing and distribution capabilities. However, our current capabilities in these areas are very limited. In order to commercialize any products successfully, we must internally develop substantial sales, marketing and distribution capabilities, or establish collaborations or other arrangements with third parties to perform these services. We do not have extensive experience in these areas, and we may not be able to establish adequate in-house sales, marketing and distribution capabilities or engage and effectively manage relationships with third parties to perform any or all of such services. To the extent that we enter into co-promotion or other licensing arrangements, our product revenues are likely to be lower than if we directly marketed and sold our products, and any revenues we receive will depend upon the efforts of third parties, whose efforts may not be successful.

If we have problems with our sole contract manufacturer, our product development and commercialization efforts for our product candidates could be delayed or stopped.

We have signed an agreement with Avid Bioservices Incorporated, a contract manufacturing organization, to produce bulk recombinant human enzyme product for clinical use. Our contract manufacturer will produce the active pharmaceutical ingredient under current good manufacturing practices for commercial scale validation and will provide support for chemistry, manufacturing and controls sections for FDA regulatory filings. We have not established and may not be able to establish arrangements with additional manufacturers for these ingredients or products should the existing supplies become unavailable or in the event that our sole contract manufacturer is unable to adequately perform its responsibilities. Difficulties in our relationship with our manufacturer or delays or interruptions in such manufacturer's supply of its requirements could limit or stop our ability to provide sufficient quantities of our products, on a timely basis, for clinical trials and, if our products are approved, could limit or stop commercial sales, which would have a material adverse effect on our business and financial condition.

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

Our success depends on the performance of key management and scientific employees with biotechnology experience. Given our small staff size and programs currently under development, we depend substantially on our ability to hire, train, retain and motivate high quality personnel, especially our scientists and management team in this field. If we were to lose either Jonathan Lim, MD, our chief executive officer, or Gregory Frost, PhD, our chief scientific officer, then we would likely lose some portion of our institutional knowledge and technical know-how, potentially causing a substantial delay in one or more of our development programs until adequate replacement personnel could be hired and trained. For example, Dr. Frost has been with our Company from soon after its inception, and he possesses a substantial amount of knowledge about our development efforts. If we were to lose his services, we would experience delays in meeting our product development schedules. We have not entered into employment agreements with any of our employees or officers, including Dr. Lim and Dr. Frost. We do not have key man life insurance policies on the lives of any of our employees, including Dr. Lim and Dr. Frost.

Future sales of shares of our common stock, including sales of shares following the registration of shares we issued in our most recent financing, may negatively affect our stock price.

As a result of our January 2004 private financing transaction, the private investors received approximately 19.0 million shares of common stock. The shares of common stock issued in connection with this financing transaction represent approximately 48% of our outstanding common stock. In connection with the financing

transaction, we also issued warrants to the private investors that are exercisable for the purchase of up to an aggregate of 10.5 million shares of common stock based upon a purchase price ranging from $0.77 to $1.75 per share. The exercise of these warrants could result in significant dilution to stockholders at the time of exercise. These shares and the shares issuable upon exercise of the warrants have been registered for resale.

In October 2004, we entered into definitive securities purchase agreements with certain institutional and accredited investors for a $13.9 million private placement of newly issued shares of common stock and the concurrent issuance of warrants for the purchase of additional shares of common stock. On November 11, 2004 we filed a registration statement covering the 10,535,257 shares issued to the private investors and issuable upon exercise of the warrants. In the future, we may issue additional options, warrants or other derivative securities convertible into Halozyme common stock.

Sales of substantial amounts of shares of our common stock, or even the potential for such sales, could lower the market price of our common stock and impair the Company's ability to raise capital through the sale of equity securities.

Our stock price is subject to significant volatility.

Our stock price is subject to significant volatility. Overall market conditions, in addition to other risks and uncertainties described in this section and elsewhere in this report, may cause the market price of our common stock to fall. We participate in a highly dynamic industry, which often results in significant volatility in the market price of common stock irrespective of company performance. As a result, our high and low stock prices for the last twelve months are $4.75 and $0.02, respectively. Fluctuations in the price of our common stock may be exacerbated by conditions in the healthcare and technology industry segments or conditions in the financial markets generally.

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

The merger between Global and Halozyme was concluded on March 11, 2004. On March 12, 2004, our common stock began trading. During the last ninety days, our average daily trading volume has been approximately 120,000 shares. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices.

Short selling common stock by selling security holders may drive down the market price of our stock.

Any selling security holders who holds warrants may sell shares of our common stock on the market before exercising the warrant. The stock is usually offered at or below market since the warrant holders receive stock at a discount to market. Once the sale is completed the holders exercise a like dollar amount of shares. If the stock sale lowered the market price, upon exercise, the holders would receive a greater number of shares than they would have absent the short sale. This pattern may result in a reduction of our common stock's market price.

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

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

- we may have to issue convertible debt or equity securities to complete an acquisition, which would dilute our stockholders and could adversely affect the market price of our common stock;

- an acquisition may negatively impact our results of operations because it may require us to incur large one-time charges to earnings, amortize or write down amounts related to goodwill and other intangible assets, or incur or assume substantial debt or liabilities, or it may cause adverse tax consequences, substantial depreciation or deferred compensation charges;

- we may encounter difficulties in assimilating and integrating the business, technologies, products, personnel or operations of companies that we acquire;
- certain acquisitions may disrupt our relationship with existing customers who are competitive with the acquired business;
- acquisitions may require significant capital infusions and the acquired businesses, products or technologies may not generate sufficient revenue to offset acquisition costs;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- acquisitions may involve the entry into a geographic or business market in which we have little or no prior experience; and
- key personnel of an acquired company may decide not to work for us.

If any of these risks occurred, it could adversely affect our business, financial condition and operating results. We cannot assure you that we will be able to identify or consummate any future acquisitions on acceptable terms, or at all. If we do pursue any acquisitions, it is possible that we may not realize the anticipated benefits from such acquisitions or that the market will not view such acquisitions positively.

Risks Related To Our Industry

Compliance with the extensive government regulations to which we are subject is expensive and time consuming, and may result in the delay or cancellation of product sales, introductions or modifications.

Extensive industry regulation has had, and will continue to have, a significant impact on our business. All pharmaceutical companies, including Halozyme, are subject to extensive, complex, costly and evolving regulation by the federal government, principally the FDA and to a lesser extent by the U.S. Drug Enforcement Administration (“DEA”), and foreign and state government agencies. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other domestic and foreign statutes and regulations govern or influence the testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products. Under certain of these regulations, Halozyme and its contract suppliers and manufacturers are subject to periodic inspection of its or their respective facilities, procedures and operations and/or the testing of products by the FDA, the DEA and other authorities, which conduct periodic inspections to confirm that Halozyme and its contract suppliers and manufacturers are in compliance with all applicable regulations. The FDA also conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems, or our contract suppliers’ and manufacturers’ processes, are in compliance with current good manufacturing products and other FDA regulations. If we, or our contract supplier, fail these inspections, we may not be able to commercialize our product in a timely manner without incurring significant additional costs, or at all.

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

We are dependent on receiving FDA and other governmental approvals prior to manufacturing, marketing and shipping our products. Consequently, there is always a risk that the FDA or other applicable governmental authorities will not approve our products, or will take post-approval action limiting or revoking our ability to sell our products, or that the rate, timing and cost of such approvals will adversely affect our product introduction plans or results of operations.

Our suppliers and sole manufacturer are subject to regulation by the FDA and other agencies, and if they do not meet their commitments, we would have to find substitute suppliers or manufacturers, which could delay the supply of our products to market.

Regulatory requirements applicable to pharmaceutical products make the substitution of suppliers and manufacturers costly and time consuming. We have no internal manufacturing capabilities and are, and expect to be in the future, entirely dependent on contract manufacturers and suppliers for the manufacture of our products and for their active and other ingredients. The disqualification of these manufacturers and suppliers through their failure to comply with

regulatory requirements could negatively impact our business because the delays and costs in obtaining and qualifying alternate suppliers (if such alternative suppliers are available, which we cannot assure) could delay clinical trials or otherwise inhibit our ability to bring approved products to market, which would have a material adverse affect on our business and financial condition.

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

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

- Our patents and pending patent applications cover products and/or technology that we invented first;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate our technologies;
- any of our pending patent applications will result in issued patents; and
- any of our issued patents, or patent pending applications that result in issued patents, will be held valid and infringed in the event the patents are asserted against others.

We currently own or license several U.S. and foreign patents and also have pending patent applications. There can be no assurance that our existing patents, or any patents issued to us as a result of such applications, will provide a basis for commercially viable products, will provide us with any competitive advantages, or will not face third-party challenges or be the subject of further proceedings limiting their scope or enforceability.

We may become involved in interference proceedings in the U.S. Patent and Trademark Office to determine the priority of our inventions. In addition, costly litigation could be necessary to protect our patent position. We also rely on trademarks to protect the names of our products. These trademarks may be challenged by others. If we enforce our trademarks against third parties, such enforcement proceedings may be expensive. We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect with confidentiality agreements with employees, consultants and others with whom we discuss our business. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of these agreements, and we might not be able to resolve these disputes in our favor.

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

If third-party reimbursement is not available, our products may not be accepted in the market.

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

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

We face intense competition and rapid technological change that could result in the development of products by others that are superior to the products we are developing.

We have numerous competitors in the United States and abroad, including, among others, major pharmaceutical and specialized biotechnology firms, universities and other research institutions that may be developing competing products. Such competitors may include Sigma-Aldrich Corporation, ISTA Pharmaceuticals, Inc. (ISTA), and Allergan, Inc., among others. These competitors may develop technologies and products that are more effective or less costly than our current or future product candidates or that could render our technologies and product candidates obsolete or noncompetitive. Many of these competitors have substantially more resources and product development, manufacturing and marketing experience and capabilities than we do. In addition, many of our competitors have significantly greater experience than we do in undertaking pre-clinical testing and clinical trials of pharmaceutical product candidates and obtaining FDA and other regulatory approvals of products and therapies for use in healthcare. In particular, ISTA is developing ovine derived hyaluronidase (Vitrase®) for intraocular use. On May 5, 2004 the FDA approved ISTA's Vitrase® for use as a spreading agent, the same indication we plan to seek for Enhanze SC™. On September 3, 2004, the FDA made public that it had granted Vitrase three years of marketing exclusivity. On October 26, 2004, the FDA approved Amphastar Pharmaceutical's, Amphadase™, a bovine hyaluronidase. On October 28, 2004, ISTA announced that the FDA had extended the exclusivity from three years to five years, granting Vitrase® new chemical entity status. While we do not believe that the Vitrase® marketing exclusivity will apply to Enhanze SC™, if the FDA decides that it does apply to Enhanze SC™, it could have a material adverse impact on our operations.

We are exposed to product liability claims, and insurance against these claims may not be available to us on reasonable terms or at all.

We might incur substantial liability in connection with clinical trials or the sale of our products. Product liability insurance is expensive and in the future may not be available on commercially acceptable terms, or at all. We currently carry a limited amount of product liability insurance. A successful claim or claims brought against us in excess of our insurance coverage could materially harm our business and financial condition.

Item 3. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have, as of the end of the period covered by this Report, reviewed our process of gathering, analyzing and disclosing information that is required to be disclosed in our periodic reports (and information that, while not required to be disclosed, may bear upon the decision of management as to what information is required to be disclosed) under the Exchange Act of 1934, including information pertaining to the condition of, and material developments with respect to, our business, operations and finances. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our process provides for timely collection and evaluation of information that may need to be disclosed to investors.

Changes in Internal Controls Over Financial Reporting

There have been no significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended September 30, 2004, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, Halozyme may be involved in litigation relating to claims arising out of its operations in the normal course of business. Halozyme currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

Item 2. Changes in Securities.

On July 28, 2004, a shareholder exercised warrants to purchase 31,590 common shares for gross proceeds of $15,000. On August 11, 2004, a shareholder exercised warrants to purchase 53,380 common shares for gross proceeds of $24,000. And on September 8, 2004, a shareholder exercised warrants to purchase 131,086 common shares for gross proceeds of $60,000. These shares were purchased for investment in a private placement exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit	Title
3.1	Articles of Incorporation (1)
3.2	Certificate of Amendment to Articles of Incorporation (1)
3.3	Bylaws (1)
3.4	Certificate of Amendment to Articles of Incorporation (2)
4.1	Form of Common Stock Certificate (3)
4.2	Form of Callable Stock Purchase Warrant (4)
10.7	2004 Stock Plan and Form of Option Agreement thereunder (4)
10.8	Form of Indemnity Agreement for Directors and Executive Officers (4)
10.9*	Exclusive Distribution Agreement between Baxter Healthcare Corp. and Registrant, dated August 13, 2004
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(1)	Incorporated by reference to the Registrant's Registration Statement on Form SB-2 filed with the Commission on September 21, 2001.
(2)	Incorporated by reference to the Registrant's Information Statement on Schedule 14C filed with the Commission on February 17, 2004.

(3) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 filed with the Commission on April 23, 2004.

Exhibit	Title
(4)	Incorporated by reference to the Registrant's amendment number two to the Registration Statement on Form SB-2 filed with the Commission on July 23, 2004.
*	Confidential treatment has been granted for certain portions of this exhibit. These portions have been omitted from this agreement and have been filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned in the City of San Diego, on November 12, 2004.

Halozyme Therapeutics, Inc.,
a Nevada corporation

Date: November 12, 2004

By: /s/ Jonathan E. Lim

Jonathan E. Lim, MD
Its: President, Chief Executive Officer,
Chairman of the Board
(Principal Executive Officer)

Date: November 12, 2004

By: /s/ David A. Ramsay

David A. Ramsay
Its: Secretary, Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 10.9

EXCLUSIVE DISTRIBUTION AGREEMENT

THIS EXCLUSIVE DISTRIBUTION AGREEMENT (this "Agreement"), dated as of August 13, 2004 (the "Effective Date") is entered into between BAXTER HEALTHCARE CORPORATION with its principal place of business at One Baxter Parkway, Deerfield, Illinois 60015-4633 ("Baxter"), and HALOZYME, INC. with its principal place of business at 11588 Sorrento Valley Road, Suite 17, San Diego, California 92121 ("Halozyme").

WHEREAS the parties entered into the non-binding letter effective as of April 27, 2004 (the "Letter"), pursuant to which the parties contemplated negotiation of this Agreement, and for purposes of this Agreement, "Product" shall have the meaning set forth in Section 1 of the Letter;

WHEREAS, Halozyme wishes to have Baxter promote, market, distribute and sell the Product and Baxter wishes to promote, market, distribute and sell the Product for Halozyme in the Territories as defined below;

NOW, THEREFORE, in consideration of the premises and the undertakings, terms, conditions and covenants set forth below, the parties hereto agree as follows:

1. Appointment and Scope.

1.1 Appointment. As of the Effective Date and subject to the terms and conditions and for the term of the Agreement, Halozyme hereby appoints Baxter as its exclusive distributor of the Products and its Improvements (as hereinafter defined) in the Territories (as defined below). Baxter hereby accepts such appointment and shall use its commercially reasonable efforts to promote, market, distribute and sell the Product after the Approval Date (as defined below). Baxter may extend such exclusive distribution rights to any of its Affiliates or sub-distributors in Baxter's customary distribution system for its other products, provided that such Affiliates or sub-distributors shall be bound by the terms of this Agreement. For the avoidance of doubt, during the term of the Agreement Halozyme shall not, and shall not enable, assist or appoint any third party (other than Baxter) to, sell or import Product, or any product that directly competes with the Product (as determined by its labeled indications), in the Territories. Notwithstanding the foregoing (but subject to Section 4.2), Halozyme retains the right jointly with Baxter, to promote and market (but not to sell) the Product. Notwithstanding the foregoing (but subject to Section 4.2), Baxter shall have the right to continue to manufacture or have manufactured, market and distribute any products that Baxter currently manufactures, markets or distributes or has under development. "Improvements" shall mean such enhancements to the Product ***, including line extensions of the Product, packaging of the Product, labeling of the Product, developments in the Product itself, and Product as produced by newly developed manufacturing methods.

1.2 Territories. "Territories" shall mean the Initial Territory and each Additional Territory (as each is defined below). The "Initial Territory" shall mean the United States and its territories, possessions and Puerto Rico. An "Additional Territory" shall mean a geographic territory (other than the Initial Territory) that may be added to this Agreement from time to time in

*** Confidential material redacted and submitted separately to the Securities and Exchange Commission.

accordance with the following. If Halozyme desires the distribution of Product in a territory that is not yet part of the Territories (other than any territory that was part of the Territories at one time but has been excluded pursuant to
Section 1.3), Halozyme shall provide written notice to Baxter of each such territory. In addition to the rights set forth in Section 1.6 below, Baxter shall have the right for a period of six (6) months following the date of such written notice to designate such territory as an Additional Territory by notifying Halozyme in writing during such six (6) months period. Upon Baxter's written notice to Halozyme in such six (6) month period, such territory shall be an Additional Territory under this Agreement. If Baxter does not provide such written notice during the applicable six (6) month period, such territory shall not be an Additional Territory and Baxter shall have no rights under this Agreement to promote, market, distribute or sell Products in such territories.

1.3 Diligence. Baxter will promote, market, distribute and sell the Products in the Territories using commercially reasonable efforts, assuming all necessary regulatory approvals are obtained. If Baxter fails to use such efforts in a country-by-country basis for the countries within the Territory and subject to the cure period set forth in Section 8.2, Halozyme shall have the right upon written notice to terminate this Agreement with respect to such country.

1.4 Independent Purchaser Status. Baxter shall be an independent purchaser and seller of the Product. Baxter shall not act as an agent or legal representative of Halozyme, nor shall Baxter have any right or power to act for or bind Halozyme in any respect or to pledge its credit. Except as expressly set forth herein, Baxter shall be free to resell the Product on such terms as it may, in its sole discretion, determine, including price, marketing, advertising, promotion, returns, credits and discounts. The detailed operations of Baxter under the Agreement are subject to the sole control and management of Baxter. Halozyme shall reasonably support Baxter's sales and promotional activities, including but not limited to, referring to Baxter all orders and inquiries from customers and providing Baxter with any existing marketing materials and documents relating to the marketing authorizations for the Products.

1.5 Failure to Supply. Each party shall use its commercially reasonable efforts to ensure a steady supply of Product or to resolve any associated supply issues with their respective contractors.

1.6 Right of First Refusal for Other Products. Halozyme hereby grants Baxter a right of first refusal to negotiate for an exclusive license within the Territories on commercially reasonable terms to distribute, offer to sell and sell any new products (other than Improvements described in the last sentence of Section 1.1) for use in ***, if such products are developed or produced by Halozyme and are labeled for use in ***. Baxter shall have the right for a period of six (6) months following the date of such written notice to designate such other product as a product to be distributed pursuant to the terms of this Agreement by notifying Halozyme in writing during such six (6) month period. Upon Baxter's written notice to Halozyme in such six (6) month period, such other product will be deemed a Product under this Agreement. If Baxter does not provide such written notice during the applicable six (6) month period, such other product will not be added to this Agreement and Baxter shall have no rights under this Agreement to promote, market, distribute or sell such other product in the Territory.

2. Financial Considerations. Supply of Product.

2.1 *** Profit Calculation. "*** Profit" shall mean, with respect to a calendar quarter, all actual invoiced sales of Product and bovine hyaluronidase as set forth in Section 4.2 received by Baxter, its affiliates or their respective sublicensees from the sale of Products in such calendar quarter less (a) *** for the Product (as mutually agreed by the parties), (b)(i) *** reasonably allocable to such sales of the Product; (ii) returns, recalls, breakage, uncollected debt, credits or allowances, if any, given or made in the ordinary course of business consistent with past practice; (iii) sales, use, value added or other excise taxes, if any, imposed on the sale by any governmental entity; and (iv) freight and insurance costs incurred in transporting Product from Baxter's distribution center in Memphis, Tennessee or such other distribution center in the Territory as may be designated by Baxter to the customer, (c) royalties owed by Halozyme to licensors of Halozyme owned or controlled intellectual property for the sale of such Product by Baxter or its Affiliates (***), and (d) *** owed by Baxter to licensors of Baxter owned or controlled intellectual property for the sale of such Product by Baxter or its Affiliates (***). Baxter and Halozyme shall exercise commercially reasonable care to maintain any such licenses which cover Product, and or its sale, offer for sale, distribution, promotion, importation, exportation, or use, in good standing, and Baxter or Halozyme shall promptly notify the other party if any such license is terminated. Baxter shall pay to Halozyme, or to Halozyme's licensor as Halozyme shall direct, the amounts described in clause (c) above concurrently with Halozyme's payment of its share of Gross Profit, and shall pay the amounts described in clause (d) above directly to the licensors of Baxter.

2.1.1 *** Profit Product. Baxter shall pay to Halozyme in USD, with respect to each sale of the Product, *** of *** Profits for such Product.

2.1.2 *** Profit *** hyaluronidase. Baxter shall pay to Halozyme in USD, with respect to each sale of *** in said Territory a percentage of *** Profits as follows: (i) For the one (1) year period after the first (1st) year anniversary of the Approval Date *** of *** Profit for *** as set forth above in this section using the same production costs as for the Product, (ii) for the one (1) year period after the second (2nd) year anniversary of the Approval Date and each successive year thereafter, *** of *** Profit for *** as set forth above in this section using the same production costs as for the product, (iii) *** percentage of *** Profit on *** shall be paid for any period Halozyme loses its regulatory Approval in said Territory or for any period beyond three (3) months in which it cannot supply API for Product in said Territory.

2.2 Other Market(s): In the event Baxter and Halozyme mutually decide to promote this Product ***, and the marketing of such further indications shall require additional clinical studies after regulatory approval for sale of the Product for sale in the country of the Territory in which the Product is to be promoted for the further indications, the Parties will agree to an annual budget for such clinical studies, marketing materials and sales force time and shall deduct such actual expenses from the *** Profit before the *** split.

2.3 Payment Reports. Within sixty (60) days after the end of each calendar quarter during the term of this Agreement, and within sixty (60) days following the expiration or termination of this Agreement, Baxter shall furnish to Halozyme a written report showing in reasonably specific detail, on a Product-by-Product and country-by-country basis, (a) the calculation

of Gross Profit; (b) the withholding taxes, if any, required by law to be deducted with respect to such sales; and (c) the exchange rates, if any, used in determining the amount of United States dollars. Within six (6) months after the end of the annual period, Baxter shall provide to Halozyme a "true-up" calculation that reconciles any credits or debits arising during such calendar year (in accordance with Section 2.1 above) that have not previously been accounted for, or were inaccurately accounted for, in the quarterly reports for the annual period. All amounts in any such written report shall be expressed in United States dollars. With respect to sales of Products invoiced in a currency other than United States dollars, all such amounts shall be expressed both in the currency in which the distribution is invoiced and in the United States dollar equivalent. The United States dollar equivalent shall be calculated using the average of the exchange rate (local currency per US$1) published in The Wall Street Journal, Western Edition, under the heading "Currency Trading" on the last business day of each month during the applicable calendar quarter. Baxter shall keep complete and accurate records in sufficient detail to enable the amounts payable hereunder to be determined.

2.4 Audits. Upon the written request of Halozyme and not more than once in each calendar year, Baxter shall permit an independent certified public accounting firm of nationally recognized standing, selected by Halozyme and reasonably acceptable to Baxter, at Halozyme's expense, to have access during normal business hours to such of the records of Baxter as may be reasonably necessary to verify the accuracy of the payment reports hereunder for any year ending not more than thirty-six (36) months prior to the date of such request. If such accounting firm concludes that additional amounts were owed during the audited period, then the parties agree to meet and discuss the calculation of the additional amounts. If it is determined that Baxter still owes the additional amounts, then Baxter shall pay such additional amounts within thirty (30) days of the date Halozyme delivers to Baxter such accounting firm's written report so concluding. The fees charged by such accounting firm shall be paid by Halozyme; provided, however, if the audit discloses that the amounts payable by Baxter for such period are more than one hundred five percent (105%) of the amounts actually paid for such period (after the true-up described in Section 2.3 above), then Baxter shall pay the reasonable fees and expenses charged by such accounting firm.

2.5 Payment Terms. All amounts shown to have accrued by each payment report provided for under Section 2.3 above shall be payable on the date such payment report is due. Payment of amounts in whole or in part may be made in advance of such due date.

2.6 Payment Method. All payments by a party to the other party under this Agreement shall be paid in United States dollars and all such payments shall be originated from a United States bank located in the United States and made by bank wire transfer in immediately available funds to such account as the payee shall designate before such payment is due.

2.7 Supply of Product. Halozyme agrees to release and supply or cause to be supplied to Baxter, at no additional charge, the quantities of Product as reasonably ordered by Baxter by the delivery dates specified in Baxter's purchase orders. Baxter shall ship or arrange for shipment of the Product specified in any purchase order from the site of manufacture for the Product to Baxter's distribution facility in Memphis, Tennessee or such other distribution center in the Territory as may be designated by Baxter.

3. Warranty, Representations.

3.1 Halozyme warrants that it possesses good and marketable title to the Product sold to Baxter hereunder and complies with all regulatory requirements for such Product in the Territory. With respect to all Product sold to Baxter hereunder that is not manufactured by Baxter or its Affiliates, Halozyme warrants that (i) such Product complies or will comply with all applicable regulatory requirements for such Product in the Territory, (ii) such Product will be manufactured in accordance with the applicable specifications therefor, the regulatory approval in the Territory and Good Manufacturing Practices as applicable to such Product in the Territory and in compliance with approved quality control processes and standards, which processes and standards will meet the minimum requirements of applicable laws and regulations in the Territory, (iii) such Product will be free from defects in workmanship and material, and (iv) it shall provide at its own expense all packaging and labeling for such Product that conform with the regulatory requirements in the Territory and are suitable for sale in the Territory and such labels are available in the appropriate languages for the Territory. For purposes of subparagraph (ii) above, each batch such Product supplied by Halozyme, will include a "Certificate of Analysis," which will include testing results, and shall be sent to Baxter by mail and fax or e-mail, indicating that the batch has been manufactured and released according to applicable Good Manufacturing Practices and the applicable specifications therefor. Halozyme shall indemnify, defend and hold harmless Baxter, its Affiliates, its sublicensees and distributors, and their respective directors, officers, employees and agents, from and against any and all liabilities, damages, losses, costs and expenses (including the reasonable fees of attorneys and other professionals) incurred from any claims, actions or proceedings by any third party to the extent resulting from a breach of the foregoing warranty.

3.2 EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, HALOZYME MAKES NO WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE PRODUCT. HALOZYME DISCLAIMS ALL OTHER WARRANTIES, EXPRESS AND IMPLIED, INCLUDING WITHOUT LIMITATION THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

4. Covenants of Baxter.

4.1 No Bundling. Baxter shall not condition the sale or transfer of the Product with the sale or transfer of any other product or the use of any service unless the price for the Product is separately itemized on the applicable invoice and is the same price charged by Baxter for the Product when sold separately. Notwithstanding the foregoing, for purposes of calculating *** Profit under Section 2.1, the "***" under clause (b)(i) shall include an evenly apportioned share of the year-end rebate pursuant to a customary *** reasonably allocated to sales of Product under such program.

4.2 Exclusivity. Within *** following the date the FDA gives marketing approval or clearance for a Product (the "Approval Date"), and for so long as this Agreement is in effect, Baxter shall not promote, market or sell in the Territory any product that constitutes *** or any other product sold solely for the labeled indications of Products previously or contemporaneously sold by Baxter; provided, however, that Baxter may continue to sell *** in said Territory if a *** is available from other commercial sources in said Territory and Baxter pays to Halozyme, with respect to each sale of *** in said Territory a percentage of *** Profit according to the terms set forth in section 2.1.2.

5. Regulatory Filings.

5.1 Baxter shall comply with all applicable regulatory requirements in any country in which Baxter promotes, markets or sells the Products or any products resulting from, in whole or in part, the Products. In order for Halozyme to comply with 21 CFR 310.305, 314.80 and 314.98 as promulgated by FDA and other regulatory authorities, Baxter must report to Halozyme any serious adverse events immediately and any adverse events and product complaints regarding the Product, consistent with the Quality Agreement. Halozyme must report to Baxter ACC any serious adverse events immediately and any adverse events and product complaints regarding the Product, in each case in accordance with the Quality Agreement.

5.2 Halozyme shall be responsible at its own cost and expense for maintaining all marketing authorizations within the Territories for the term of this Agreement. Halozyme shall duly inform the regulatory authorities of Baxter being the exclusive distributor of the Product in the Territories.

6. Confidentiality.

6.1 Confidentiality. During the term of this Agreement, and for a period of five (5) years following the expiration or earlier termination hereof, each party shall maintain in confidence all Confidential Information (as defined below) disclosed by the other party, and shall not use, grant the use of or disclose to any third party the Confidential Information of the other party other than as expressly permitted by this Agreement. Each party shall notify the other promptly upon discovery of any unauthorized use or disclosure of the other party's Confidential Information. As used herein, "Confidential Information" shall mean all information and data that (a) is provided by one party to the other party under this Agreement, and (b) if disclosed in writing or other tangible medium is marked or identified as confidential at the time of disclosure to the recipient, or is acknowledged at the time of disclosure to be confidential, or otherwise should reasonably be deemed to be confidential. Notwithstanding the foregoing, Confidential Information of a party shall not include that portion of such information and data which, and only to the extent, the recipient can establish by written documentation: (i) is known to the recipient as evidenced by its written records before receipt thereof from the disclosing party, (ii) is disclosed to the recipient free of confidentiality obligations by a third person who has the right to make such disclosure, (iii) is or becomes part of the public domain through no fault of the recipient, or
(iv) the recipient can reasonably establish is independently developed by persons on behalf of recipient without access to or use of the information disclosed by the disclosing party.

6.2 Permitted Disclosures. Either party may disclose Confidential Information of the disclosing party (a) on a need-to-know basis, to such party's directors, officers and employees to the extent such disclosure is reasonably necessary in connection with such party's activities as expressly authorized by this Agreement, and (b) to those affiliates, agents and consultants who need to know such information to accomplish the purposes of this Agreement (collectively, "Permitted Recipients"); provided such Permitted Recipients are bound to maintain such Confidential Information in confidence to the same extent as set forth in Section 6.1.

6.3 Litigation and Governmental Disclosure. Each party may disclose Confidential Information hereunder to the extent such disclosure is reasonably necessary for

prosecuting or defending litigation, complying with applicable governmental regulations or conducting pre-clinical or clinical trials, provided that if a party is required by law or regulation to make any such disclosure of the other party's Confidential Information it will, except where impractical for necessary disclosures, for example in the event of a medical emergency, give reasonable advance notice to the other party of such disclosure requirement and will use good faith efforts to assist such other party to secure a protective order or confidential treatment of such Confidential Information required to be disclosed.

6.4 Limitation of Disclosure. The parties agree that, except as otherwise may be required by applicable laws, regulations, rules or orders, including without limitation the rules and regulations promulgated by the United States Securities and Exchange Commission, and except as may be authorized in this Section 6, no information concerning this Agreement and the transactions contemplated herein shall be made public by either party without the prior written consent of the other.

6.5 Publicity and SEC Filings. The parties agree that the public announcement of the execution of this Agreement shall only be by one or more press releases mutually agreed to by the parties. The failure of a party to return a draft of a press release with its proposed amendments or modifications to such press release to the other party within ten business (10) days of such party's receipt of such press release shall be deemed as such party's approval of such press release as received by such party. Each party agrees that it shall cooperate fully and in a timely manner with the other with respect to all disclosures to the Securities and Exchange Commission and any other governmental or regulatory agencies, including requests for confidential treatment of Confidential Information of either party included in any such disclosure.

7. Intellectual Property Rights.

7.1 Patent Rights. Except as expressly set forth in this Agreement, including but not limited to rights and permissions implied in the appointment of Baxter and its Affiliates as exclusive distributor(s) pursuant to Section 1.1 of this Agreement, Halozyme does not, by this agreement, either expressly or impliedly, grant any other licenses to Baxter under any patents or other intellectual property owned or controlled by Halozyme or under which Halozyme has any rights. Halozyme warrants that it owns, controls or has licenses to all intellectual property rights implied in the appointment of Baxter and its Affiliates as exclusive distributor(s) pursuant to Section 1.1 of this Agreement. Halozyme represents that it is not otherwise a party to any agreement that would inhibit or prevent Halozyme from licensing or otherwise conveying any of these intellectual property rights to Baxter. Halozyme warrants that the use of the trademarks referenced in 7.2 below shall be delivered free of any claim of any third party for any infringement of any trademark rights of such third party.

7.2 Trademarks and Trade Names.

(a) Baxter shall not use any of Halozyme's trademarks, or any mark or name confusingly similar thereto, as part of its corporate or business name or in any other manner, except that (a) Baxter may identify itself as an authorized distributor of Halozyme, (b) (i) if reasonably feasible, taking into account the final size of the Product as determined by Baxter in good faith, Baxter shall prominently mark on the Product vial, in addition to Baxter's own trade

dress, any brand name of the applicable Product "Manufactured for Halozyme Therapeutics, Inc., San Diego, California" and (ii) Baxter shall prominently mark on the package insert and Product packaging "Manufactured for Halozyme Therapeutics, Inc., San Diego, California", and (c) Baxter shall not register any trade mark or trade name (including any company name) which is identical to or confusingly similar to or incorporates any trade mark or trade name which Halozyme or any associated company owns or claims rights in.

(b) Halozyme hereby grants to Baxter an exclusive right in the Territories for the term of this Agreement to use Halozyme's trademark "Enhanze SC(TM)" solely for use with the distribution of the Product. Any other use of Halozyme's trademarks shall be subject to written prior approval from Halozyme. Within thirty (30) days after the Approval Date, Halozyme shall supply Baxter with written guidelines concerning Halozyme's preferences and restrictions for trade dress or trademarks used in the marketing, promotion or distribution of the Product. Halozyme shall have the right to approve any trade dress or trademarks used by Baxter with the marketing, promotion or distribution of the Product, which approval shall not be unreasonably withheld. Such right of Halozyme to approve shall be exercised by notifying Baxter in writing of Halozyme's desire to approve such trade dress or trademarks. After such notification, Baxter shall supply Halozyme with layouts and/or specimens of any such trade dress or trade mark usage at least fifteen (15) business days prior to any anticipated use of such. Halozyme shall have ten (10) business days to review any such layouts and/or specimens, and shall be deemed to approve use of such if Baxter is not notified in writing of Halozyme's objection to such use by the end of the ten (10) business day period. Halozyme may suspend such right of approval, without affecting its right to reactivate such right of approval, by written notice to Baxter.

(c) Any goodwill associated with any trade marks affixed or applied or used in relation to Products sold or otherwise distributed by Baxter pursuant to this Agreement shall accrue to the sole benefit of Halozyme, except to the extent that such goodwill is associated with any Baxter owned trademark not specific to the Product. Nothing in this Agreement shall create an obligation on Halozyme to register or otherwise maintain in force any trademarks. However, if Halozyme decides not to maintain the trademark "Enhanze SC(TM)", Baxter shall have the option as exclusive licensee under the mark to obtain ownership of the trademark "Enhanze SC(TM)" and maintain the mark. Halozyme shall notify Baxter of any such decision not to maintain the trademark "Enhanze SC(TM)" at least thirty (30) days prior to any action needed to maintain the mark in the Territory, and effect any documents necessary for transfer of ownership of the mark if Baxter exercises the option. Nothing in this Agreement shall create an obligation on Baxter to register or otherwise maintain in force any trademarks. Upon termination of this Agreement, ownership of any trademark registered by Baxter for use only in Product labeling or advertising shall vest in Halozyme, and Baxter shall execute all documents necessary to effect such transfer of ownership; however, this sentence shall not apply to the trademark "Enhanze SC(TM)" if Halozyme decides not to maintain the trademark, and Baxter exercises its option above. Upon expiration of this Agreement under Section 8.1 (provided that this Agreement is not extended by mutual written agreement of the parties) or termination of this Agreement by Baxter under 8.2 (a), Baxter shall have the option to purchase from Halozyme any trademark used only in Product labeling or advertising, such option being exercisable by written notice to Halozyme within thirty (30) days of such expiration or termination of this Agreement. If Baxter exercised this option, the Parties shall negotiate in good faith the terms of such purchase for at least ninety (90) days. If, after the ninety (90) day period the parties have not agreed to terms of such purchase, Baxter shall have a right of first refusal on such

trademarks. Under this right of first refusal, Halozyme shall offer to Baxter any such trademarks that are offered for sale, license, or transfer to any non-Affiliate third party under terms which are the same as the offer to the third party. Baxter shall have sixty (60) days to accept or reject such terms. Despite any use of Baxter's general trade dress, trademarks or servicemarks denoting Baxter as the source of Product in connection with the packaging, labeling, advertising, or promotion of Product, Halozyme shall have no license, express or implied, to use such general trade dress, trademarks or service marks after the termination of this Agreement.

7.3 Intellectual Property Infringement Litigation. Baxter shall inform Halozyme immediately upon becoming aware of: (i) any infringements or risk of infringements by a third party of Halozyme's intellectual property (including but not limited to brands, trademarks, copyrights, and patents), and
(ii) any allegations of infringements or risk of infringements by the Products of a third party's intellectual property or claims of such by a third party.

(a) In the event of any such infringement under (i), *** shall allow *** of any claim of intellectual property right infringement by or against a third party in *** shall not compromise, settle or negotiate or make any statement on behalf ***, Baxter shall cooperate with *** with any such infringement defense or prosecution.

(b) In the event of any allegations of infringement or risk or infringement under (ii), the Party first having notice of an infringement claim shall promptly notify the other Party in writing. The notice shall set forth the facts of the infringement claim in reasonable detail. The party being sued or threatened under (ii) *** shall consult with the other party, ***, (2) the other party shall cooperate with such party to the extent allowed by law; and (3) such party shall *** to the extent permitted *** an infringement claim under (ii), including ***

(c) ***. In the event that the use, sale, offer for sale or importation of a Product is alleged to infringe a Third Party Patent or a Third Party trademark (collectively, "Third Party IP"), the Parties will cooperate to *** for ***. If the Parties determine that *** is appropriate, and *** to such Third Party IP ***, the Parties agree that *** shall be *** for ***, when such Third Party IP ***, and that *** shall be *** for *** shall include a *** when such Third Party IP ***. The Parties shall *** such Third Party IP ***.

7.4 Copyrights. Baxter hereby acknowledges that Halozyme has claimed, or may claim, copyright protection with respect to certain parts of the Products and the labels, inserts and other materials regarding the Products. Baxter further acknowledges the validity of Halozyme's right to claim copyright protection with respect to such items. Baxter further acknowledges that Halozyme has the exclusive right (to the exclusion of all others) to claim the copyright protection with respect to all such items. Halozyme herein gives Baxter express permission to copy and distribute to its sales representatives Product advertising, literature and other materials prepared by or on behalf of Halozyme for the purpose of fulfilling Baxter's obligations under the Agreement.

8. Term and Termination.

8.1 Term and Renewal. This Agreement, and the obligations of the parties hereunder, shall commence on the Effective Date and continue for the life of the *** patents. Thereafter, the Agreement will be automatically extended for additional one year periods until either

party notifies the other party in writing not less than twenty-four (24) months prior of that party's intent to terminate the Agreement.

8.2 Termination for Cause.

(a) Except as otherwise provided in Section 9.2, below, either party may terminate the Agreement upon or after the breach of any material provision of the Agreement by the other party if the other party has not cured such breach within sixty (60) days after notice thereof from the nonbreaching party.

(b) Except as otherwise provided in Section 9.2 and 8.2(d), below, Halozyme shall have the right to terminate this Agreement upon sixty (60) days written notice to Baxter if Baxter receives notice that all regulatory and commercial approvals to market the Product in a country in the Territory have been obtained, and either (i) does not commence commercial sales within six (6) months of such approval in such country, or (ii) discontinues or suspends sales of the Product in such country for sixty (60) days; provided, however, that (A) such occurrence was not a result of Halozyme's failure to supply API to Baxter or maintain regulatory approval, and (B) Baxter has not resumed sales within the sixty (60) day notice period; provided, further, that if Halozyme gives notice to Baxter under this Section 8.2(b) twice in any twelve (12) month period, then Baxter shall not have the right to cure under clause (B) above following such second notice.

(c) Either party may terminate immediately in the event of the insolvency of the other party or its inability to pay its debts in the ordinary course of business or the appointment of a liquidator, receiver or administrator.

(d) In the event of a bona fide allegation or claim of infringement under Section 7.3 (ii), Baxter shall have the option to suspend distribution of Product (subject to the rights of Halozyme under Section 8.2(b)), or terminate this Agreement, by written notice to Halozyme.

(e) Baxter shall have the right to terminate this Agreement by giving 30 days advance written notice to Halozyme in the event that FDA approval for the Product in the Territory is not obtained by Halozyme by December 31, ***.

(f) If Baxter determines in good faith that continuing sales in any country in the Additional Territory is not commercially reasonable, then Baxter shall give express written notice to Halozyme thereof, and on the date thirty (30) days after such written notice, (i) such country shall be removed from the Additional Territory, and (ii) the parties shall have no further rights or obligations to each other with respect to such country (other than final accounting, payments and audit rights and obligations for sales prior to the date such country was removed from the Additional Territory).

8.3 Effect of Expiration and Termination. Expiration or termination of the Agreement shall not relieve the parties of any obligation accruing prior to such expiration or termination. The provisions of Sections 6, 7.2(c) and 9 shall survive the expiration or termination of the Agreement. Upon the expiration or termination of the Agreement, Baxter shall have the right to sell the remaining stock of Products for a period of twelve (12) months following such expiration or termination.

9. Miscellaneous.

9.1 Notices. All notices hereunder shall be delivered by facsimile (confirmed by overnight delivery), or by overnight delivery with a reputable overnight delivery service, to the following address of the respective parties:

If to Halozyme:	Halozyme, Inc. 11588 Sorrento Valley Road, Suite 17 San Diego, California 92121 Attn: President Fax: (858) 259-2539 Phone: (858) 794-8889
With a copy to:	Gray Cary Ware & Freidenrich LLP 4365 Executive Drive, Suite 1100 San Diego, California 92121 Attention: Mark R. Wicker Fax: (858) 677-1401 Phone: (858) 677-1489
If to Baxter:	Baxter Healthcare Corporation 95 Spring Street New Providence, NJ 07974 Attn: General Manager Fax: (908) 286-7267 Phone: (908) 286-7115
With a copy to:	Baxter Healthcare Corporation One Baxter Parkway Deerfield, Illinois 60015-4633 Attn: General Counsel Fax: (847) 948-2450 Phone: (847) 948-2600

Notices shall be effective on the day of receipt. A party may change its address listed above by notice to the other party given in accordance with this
Section 9.1.

9.2 Force Majeure. Any delay in the performance of any of the duties or obligations of either party hereto (except the payment of money), to the extent caused by an event outside the affected party's reasonable control, shall not be considered a breach of this Agreement, and unless provided to the contrary herein, the time required for performance shall be extended for a period equal to the period of such delay. Such events shall include without limitation, acts of God; acts of public enemies; insurrections; riots; injunctions; embargoes; labor disputes, including strikes,

lockouts, job actions, or boycotts; fires; explosions; floods; shortages of material or energy; delays in the delivery of raw materials; acts or orders of any government or agency thereof or other unforeseeable causes beyond the reasonable control and without the fault or negligence of the party so affected. The party so affected shall give prompt written notice to the other party of such cause and a good faith estimate of the continuing effect of the force majeure condition and duration of the affected party's nonperformance, and shall take whatever reasonable steps are appropriate to relieve the effect of such causes as rapidly as possible. If the period of nonperformance by Baxter because of force majeure conditions exceeds ninety (90) calendar days, Halozyme may terminate this Agreement by written notice to Baxter. If the period of nonperformance by Halozyme because of force majeure conditions exceeds ninety
(90) calendar days, Baxter may terminate this Agreement by written notice to Halozyme.

9.3 Assignment. Neither party shall assign this Agreement or any part hereof or any interest herein to any non-affiliated third party (or use any subcontractor) without the written approval of the other party; provided, however, that either party may assign this Agreement without such consent to an Affiliate or in the case of a merger, consolidation, change in control or sale of all or substantially all of the assets of the party seeking such assignment or transfer and such transaction relates to the business covered by this Agreement and the resulting entity assumes all of the obligations under this Agreement. No assignment shall be valid unless the permitted assignee(s) assumes all obligations of its assignor under this Agreement. No assignment shall relieve any party of responsibility for the performance of its obligations hereunder. Any purported assignment in violation of this Section 9.3 shall be void.

9.4 Entire Agreement. The parties hereto acknowledge that this Agreement, together with the Confidentiality Agreement signed by Halozyme and Baxter on August 14, 2003 (as amended to date) and the Letter (but only for purposes of the definition of the Product), sets forth the entire agreement and understanding of the parties and supersedes all prior written or oral agreements or understandings with respect to the subject matter hereof. No modification of any of the terms of this Agreement, or any amendments thereto, shall be deemed to be valid unless in writing and signed by an authorized agent or representative of both parties hereto. No course of dealing or usage of trade shall be used to modify the terms and conditions herein.

9.5 Waiver. None of the provisions of this Agreement shall be considered waived by any party hereto unless such waiver is agreed to, in writing, by authorized agents of such party. The failure of a party to insist upon strict conformance to any of the terms and conditions hereof, or failure or delay to exercise any rights provided herein or by law shall not be deemed a waiver of any rights of any party hereto.

9.6 Obligations to Third Parties. Each party warrants and represents that this Agreement does not conflict with any contractual obligations, expressed or implied, undertaken with any third party.

9.7 Independent Contractor. Baxter and Halozyme are acting under this Agreement as independent contractors and neither shall be considered an agent of, or joint venturer with, the other. Unless otherwise provided herein to the contrary, each party shall furnish all expertise, labor, supervision, machining and equipment necessary for the performance of its

obligations hereunder and shall obtain and maintain all building and other permits and licenses required by public authorities.

9.8 Governing Law. In any action brought regarding the validity, construction and enforcement of this Agreement, it shall be governed in all respects by the laws of the State of New Jersey, without regard to the principles of conflicts of laws. The courts of the State of California shall have jurisdiction over the parties hereto in all matters arising hereunder and the parties hereto agree that venue shall be a state or federal court in California.

9.9 Severability. If any term or provision of this Agreement shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other term or provision hereof, and this Agreement shall be interpreted and construed as if such term or provision, to the extent the same shall have been held to be invalid, illegal or unenforceable, had never been contained herein.

9.10 Headings, Interpretation. The headings used in this Agreement are for convenience only and are not part of this Agreement.

9.11 Counterparts. The Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have each caused this Exclusive Distribution Agreement to be executed by their duly-authorized representatives as of the Effective Date above written.

HALOZYME, INC.	*BAXTER HEALTHCARE CORPORATION*
By: /s/ Jonathan Lim	*By: /s/ Billy J. Simmons*
Name: Jonathan Lim	Name: Billy J. Simmons, Jr.
Title: President and CEO	Title: General Manager

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jonathan E. Lim, Chief Executive Officer of Halozyme Therapeutics, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB of Halozyme Therapeutics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 12, 2004

/s/ Jonathan E. Lim

Jonathan E. Lim, MD
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David A. Ramsay, Chief Financial Officer of Halozyme Therapeutics, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB of Halozyme Therapeutics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 12, 2004

/s/ David A. Ramsay

David A. Ramsay
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Halozyme Therapeutics, Inc. (the "Registrant") on Form 10-QSB for the Quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan E. Lim, MD, Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: November 12, 2004

/s/ Jonathan E. Lim

Jonathan E. Lim, MD
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Halozyme Therapeutics, Inc. (the "Registrant") on Form 10-QSB for the Quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Ramsay, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: November 12, 2004

/s/ David A. Ramsay

David A. Ramsay
Chief Financial Officer