

GENENTECH INC
Form DEF 14A
March 11, 2005
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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

GENENTECH, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box)

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No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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1 DNA Way

South San Francisco, California 94080-4990

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

DATE Thursday, April 14, 2005

TIME 10:00 a.m., Pacific Daylight Time

PLACE Westin Hotel

1 Old Bayshore Highway

Millbrae, California

ITEMS OF BUSINESS

1. To elect directors to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified.
2. To ratify Ernst & Young LLP as our independent auditor for 2005.
3. To consider any other matter properly brought before the stockholders at the annual meeting or at any adjournment or postponement of the annual meeting.

RECORD

DATE

You are entitled to vote at the annual meeting if you were a stockholder at the close of business on Monday, February 14, 2005.

ADMISSION

If you are a stockholder of record, you may be asked to present proof of identification for admission to the annual meeting. If your shares are held in the name of a broker, bank or other nominee, you may be asked to present proof of identification and a statement from your broker, bank or other nominee, reflecting your beneficial ownership of Genentech, Inc. common stock as of February 14, 2005, as well as a proxy from the record holder to you. Please be prepared to provide this documentation if requested.

VOTING BY PROXY

Please submit a proxy as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions regarding voting, please refer to the *Questions and Answers* beginning on page 1 of the Proxy Statement and the instructions on your proxy card.

By Order of the Board,

STEPHEN G. JUELGAARD

Executive Vice President, General

Counsel and Secretary

***This Proxy Statement and accompanying proxy card are being
distributed on or about March 11, 2005.***

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ELECTRONIC DELIVERY OF STOCKHOLDER COMMUNICATIONS

Our annual meeting materials are available electronically. As an alternative to receiving printed copies of these materials in future years, you can elect to receive an e-mail which will provide an electronic link to these documents as well as allow you the opportunity to conduct your voting online. By registering for electronic delivery, you can conveniently receive stockholder communications as soon as they are available without waiting for them to arrive via postal mail. You can also reduce the number of documents in your personal files, eliminate duplicate mailings, help us reduce our printing and mailing expenses and conserve natural resources.

Stockholders of Record

You are a stockholder of record if you hold your shares in certificate form. If you vote on the Internet at www.eproxyvote.com/dna, simply follow the directions for enrolling in the electronic delivery service. You also may enroll in the electronic delivery service at any time in the future by going directly to www.econsent.com/dna and following the instructions.

Beneficial Stockholders

You are a beneficial stockholder if your shares are held by a broker, bank or other nominee. Please check with your bank, broker or relevant nominee regarding the availability of this service.

If you have any questions about electronic delivery, please contact Genentech's Investor Relations Department by phone at (650) 225-1599 or by email at investor.relations@gene.com.

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PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT

THE PROXY MATERIALS AND THE ANNUAL MEETING

Q: *Why am I receiving these materials?*

A: The Board of Directors of Genentech, Inc. (the Company) is providing you with these proxy materials in connection with the annual meeting of stockholders, which will take place at 10:00 a.m. on April 14, 2005. You are invited to attend the annual meeting and requested to vote on the proposals described in this Proxy Statement.

Q: *Who can vote at the annual meeting?*

A: Stockholders who owned our common stock of record on February 14, 2005 may vote at the annual meeting. Each share of common stock is entitled to one vote. There were 1,046,299,857 shares of our common stock outstanding on February 14, 2005.

Q: *What is the proxy card?*

A: The proxy card enables you to appoint Stephen G. Juelsgaard and Arthur D. Levinson as your representatives at the annual meeting. By completing and returning the proxy card, you are authorizing Mr. Juelsgaard and Dr. Levinson to vote your shares at the meeting as you have instructed them on the proxy card. This way, you can vote your shares whether or not you attend the meeting.

Q: *What am I voting on?*

A: We are asking you to vote on:

the election of directors for one-year terms, and

the ratification of Ernst & Young LLP as our independent auditor for 2005.

Q: *How do I vote?*

A: BY MAIL: Please complete and sign your proxy card and mail it in the enclosed pre-addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. If an additional proposal comes up for a vote at the annual meeting that is not on the proxy card, your shares will be voted in the best judgment of Mr. Juelsgaard and Dr. Levinson. If you submit your proxy card but do not mark your voting instructions on the proxy card, your shares will be voted as follows:

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FOR the named nominees as directors,

FOR ratification of Ernst & Young LLP as our independent auditor for 2005, or

according to the best judgment of Mr. Juelsgaard and Dr. Levinson if a proposal that is not on the proxy card comes up for a vote at the meeting.

BY TELEPHONE: Please follow the **Vote by Telephone** instructions that accompanied your proxy card. If you vote by telephone, you do not have to mail in your proxy card.

BY INTERNET: Please follow the **Vote by Internet** instructions that accompanied your proxy card. If you vote by Internet, you do not have to mail in your proxy card.

IN PERSON: We will pass out written ballots to anyone who wants to vote in person at the annual meeting. However, if you hold your shares in street name, you must request a proxy card from your broker in order to vote at the meeting. Holding shares in street name means that you hold them through a brokerage firm, bank, or other nominee, and, therefore, the shares are not held in your individual name in the records maintained by our transfer agent, EquiServe Trust Company, N.A., but instead are held in the name of your brokerage firm, bank, or other nominee.

Q: *What does it mean if I receive more than one proxy card?*

A: It means that you hold our shares in multiple accounts at the transfer agent or

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with brokers or other custodians of your shares. Please complete and return all the proxy cards you receive to ensure that all your shares are voted.

Q: Can I change my vote?

A: You may revoke your proxy and change your vote by:

signing another proxy card with a later date and returning it before the polls close at the annual meeting, or

voting in person at the annual meeting.

Q: How many shares must be present to hold the annual meeting?

A: To hold the annual meeting and conduct business, a majority of the Company's outstanding shares as of February 14, 2005 must be present in person or by proxy at the meeting. This is called a quorum.

Shares are counted as present at the meeting, if the stockholder either:

is present and votes in person at the meeting, or

has properly submitted a proxy.

Both abstentions and broker non-votes are counted as present for the purposes of determining the presence of a quorum. Broker non-votes occur when shares held by a stockholder in street name are not voted with respect to a proposal because the broker has not received voting instructions from the stockholder, and the broker lacks discretionary voting power to vote the shares.

Q: How many votes must nominees for director receive to be elected?

A: Since six (6) directors are to be elected at the annual meeting, the six individuals receiving the highest number of votes FOR election will be elected.

Q: How many votes must the ratification of Ernst & Young LLP as the Company's independent auditor for 2005 receive to be approved?

A: The ratification of Ernst & Young LLP as our independent auditor for 2005 will be approved if a majority of votes cast are FOR approval.

Q: How are votes counted?

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A: You may vote either FOR each director nominee or withhold your vote from any one or more of the nominees.

You may vote FOR or AGAINST or ABSTAIN from voting on the proposal to ratify Ernst & Young LLP as our independent auditor for 2005.

If you abstain from voting on this proposal, it will have the same effect as a vote AGAINST the proposal.

Broker non-votes, although counted toward the quorum, will not count as votes cast with respect to the matter as to which the broker has expressly not voted. Accordingly, broker non-votes will not affect the outcome of the voting on the proposals described in this Proxy Statement.

Voting results are tabulated and certified by our transfer agent, EquiServe Trust Company, N.A.

Q: *Who will bear the cost of soliciting votes for the meeting?*

A: We are paying for the distribution and solicitation of the proxies. As a part of this process, we reimburse brokers, nominees, fiduciaries and other custodians for reasonable fees and expenses in forwarding proxy materials to our stockholders. Our employees may also solicit proxies through mail, telephone, the Internet or other means, but they do not receive additional compensation for providing those services.

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RELATIONSHIP WITH ROCHE

Arrangements between Genentech and Roche

In June 1999, the Company redeemed all of its callable putable common stock (special common stock) held by stockholders other than Roche Holdings, Inc. (Roche) for cash pursuant to a contractual obligation with Roche that gave Roche the right to require such a redemption. Upon completion of the redemption, Roche s ownership percentage of the Company s special common stock was 100%. In July and October of 1999 and March 2000, Roche completed public offerings of our common stock (common stock) and in January 2000, Roche completed an offering of zero-coupon notes exchangeable for our common stock held by Roche. At the conclusion of these public offerings in March 2000, Roche s ownership of our common stock was 58.9%. On December 31, 2004, Roche s ownership of our common stock was 56.1%.

During the period Roche owned all of our outstanding equity, we amended our Certificate of Incorporation and entered into an affiliation agreement with Roche that enabled our current management to conduct our business and operations as we had done in the past while at the same time reflecting Roche s ownership in us. The affiliation agreement is for the exclusive benefit of Roche and can be amended at any time by Roche and us. We also amended our bylaws to provide Roche with certain proportional representation rights with respect to membership on our Board of Directors and committees.

Our Amended and Restated Certificate of Incorporation provides that the provisions of our bylaws described under Composition of Board of Directors, Roche s Right to Proportional Representation, Membership of Committees and Nomination of Directors, may be repealed or amended only by a 60% vote of our stockholders. However, Roche s right to nominate a number of directors proportional to Roche s ownership interest until Roche s ownership interest is less than 5%, may be repealed or amended only by a 90% vote of our stockholders.

The provisions of the affiliation agreement described below under Roche Approval Required for Certain Actions and Licensing and Marketing Agreement will terminate if Roche owns less than 40% of our stock.

Under our bylaws and for the purposes of the discussion below, unless otherwise noted, an independent director is a director who is not:

one of our officers;

an employee, director, principal stockholder or partner of Roche or any Roche affiliate or

an entity that depended on Roche for more than 10% of his, her or its revenues or earnings in its most recent fiscal year.

Composition of Board of Directors

As prescribed by our bylaws, our Board currently consists of seven members: three nominees of Roche, one executive officer of Genentech and three independent directors. All of our directors other than those designated by Roche are nominated by the Nominations Committee of the Board. The Board has the authority to further increase the size of the board from time to time. Directors are elected to serve until the next annual meeting of stockholders or until their successors are elected and qualified.

Roche's Right to Proportional Representation

Under our bylaws, Roche is entitled to representation on our Board proportional to its ownership interest in our common stock. Roche is entitled to have a number of directors equal to its percentage ownership of our common stock times the total number of directors, rounded up to the next whole number if Roche's ownership interest is greater than 50% and rounded down if it is less than or equal to 50%. Upon Roche's request, we will immediately take action to

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increase the size of our Board or to fill the vacancies by electing Roche nominees in order to achieve Roche's proportional representation.

If Roche's ownership interest of our common stock falls below 40%, the Roche directors will resign to the extent Roche's representation exceeds its proportional ownership interest. The number of directors required to resign shall be rounded up to the next whole number. Roche shall thereafter be entitled to nominate a number of directors proportional to Roche's ownership interest rounded down to the next whole number, until Roche's ownership interest is less than 5%.

Membership of Committees

We have five committees of the Board:

an Audit Committee,

a Compensation Committee,

a Corporate Governance Committee,

an Executive Committee, and

a Nominations Committee

and Roche is entitled to at least one member on each committee who will be designated by Roche, and upon providing notice to the Company, proportional representation on each committee. However, under the Sarbanes Oxley Act of 2002 (the "Sarbanes Oxley Act") and rules of the Securities and Exchange Commission (the "SEC") promulgated thereunder as well as New York Stock Exchange ("NYSE") rules relating to corporate governance, no Roche director may be a member of the Audit Committee. Roche's committee members may designate another Roche director to serve as their alternates on any committee.

Under our bylaws, the Nominations Committee is required to have three members. Any time that Roche's ownership percentage of our stock is equal to or greater than 80%, the Nominations Committee is to be comprised of two Roche nominees and one independent director. Any time that Roche's ownership percentage of our stock is less than 80%, the Nominations Committee is to be comprised of a number of Roche nominees equal to Roche's ownership percentage times three, rounded up to the next whole number if Roche's total voting power is greater than 50% and rounded down if Roche's total voting power is less than or equal to 50%. However, Roche may not have more than two nominees at any time. Roche currently has two nominees on the Nominations Committee.

Nomination of Directors

A majority of the members of the Nominations Committee must approve the nomination of any person for director not designated by Roche.

Roche Approval Required for Certain Actions

Without the prior approval of the Roche directors, we will not approve:

any acquisition constituting a substantial portion of our business or assets;

any sale, lease, license, transfer or other disposal of all or a substantial portion of our business or assets not in the ordinary course of our business;

any issuance of capital stock other than (1) issuances pursuant to employee incentive plans not exceeding 5% of our voting stock, (2) issuances upon the exercise, conversion or exchange of any of our outstanding capital stock, and (3) other issuances not exceeding 5% of our voting stock in any 24 month period; and

any repurchase or redemption of our capital stock other than (1) a redemption required by the terms of a security and (2) purchases made at fair market value in connection with any of our deferred compensation plans.

For purposes of the first and second bullet points of the previous paragraph, unless a majority of the Board of Directors has made a contrary determination in good faith, a substantial portion of our business or assets shall mean a portion of our business or assets accounting for 10% or more of our and our consolidated subsidiaries consolidated total assets, contribution to net income or revenues.

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If Roche makes a request for proportional representation on the Board, until the Roche designees take office as directors, we may not take any action not in the ordinary course of business without Roche's consent.

Licensing and Marketing Agreement

We have a licensing and marketing agreement with F. Hoffmann-La Roche Ltd (or Hoffmann-La Roche) and its affiliates, granting them an option to license, use and sell our products in non-U.S. markets. The major provisions of that agreement include the following:

Hoffmann-La Roche may exercise its option to license our products upon the occurrence of any of the following: (1) our decision to file an Investigational New Drug application (or IND) for a product, (2) completion of a Phase II trial for a product or (3) if Hoffmann-La Roche previously paid us a fee of \$10 million to extend its option on a product, completion of a Phase III trial for that product;

if Hoffmann-La Roche exercises its option to license a product, it has agreed to reimburse us for development costs as follows: (1) if exercise occurs at the time an IND is filed, Hoffmann-La Roche will pay 50% of development costs incurred prior to the filing and 50% of development costs subsequently incurred, (2) if exercise occurs at the completion of a Phase II trial, Hoffmann-La Roche will pay 50% of development costs incurred through completion of the trial, 75% of development costs subsequently incurred for the initial indication, and 50% of subsequent development costs for new indications, formulations or dosing schedules, (3) if the exercise occurs at the completion of a Phase III trial, Hoffmann-La Roche will pay 50% of development costs incurred through completion of Phase II, 75% of development costs incurred through completion of Phase III, and 75% of development costs subsequently incurred, and \$5 million of the option extension fee paid by Hoffmann-La Roche to preserve its right to exercise its option at the completion of a Phase III trial will be credited against the total development costs payable to us upon the exercise of the option; (4) we and Hoffmann-La Roche each have the right to opt-out of developing an additional indication for a product for which Hoffmann-La Roche exercised its option, and would not share the costs or benefits of the additional indication, but could opt-back-in before approval of the indication by paying twice what would have been owed for development of the indication if no opt-out had occurred.

we agreed, in general, to manufacture for and supply to Hoffmann-La Roche its clinical requirements of our products at cost, and its commercial requirements at cost plus a margin of 20%; however, Hoffmann-La Roche will have the right to manufacture our products under certain circumstances;

Hoffmann-La Roche has agreed to pay, for each product for which it exercises its option upon either a decision to file an IND with the U.S. Food and Drug Administration (or FDA) or completion of the Phase II trials, a royalty of 12.5% on the first \$100 million on its aggregate sales of that product and thereafter a royalty of 15% on its aggregate sales of that product in excess of \$100 million until the later in each country of the expiration of our last relevant patent or 25 years from the first commercial introduction of that product;

for each product for which Hoffmann-La Roche exercises an option after completion of the Phase III trials, it will pay a royalty of 15% on its sales of that product in each country until the later of the expiration of our relevant patent or 25 years from the first commercial introduction of that product; however, \$5 million of any option extension fee that Hoffmann-La Roche pays will be credited against royalties due to us in the first calendar year of sales by Hoffmann-La Roche in which aggregate sales of the product exceed \$100 million; and

Hoffmann-La Roche's option expires in 2015.

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See Certain Relationships and Related Transactions on page 26 for a discussion of transactions under other agreements between Hoffmann-La Roche and us.

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Registration Rights

We have agreed to use our best efforts to file one or more registration statements under the Securities Act of 1933 in order to permit Roche to offer and sell shares of our common stock.

Generally, we will pay all expenses incident to the performance of our obligations with respect to the registration of Roche's shares of our common stock except that Roche has agreed to pay certain expenses to be directly incurred by Roche, including underwriting fees, discounts and commissions and counsel fees. In addition, we are only required to pay for two registrations within a 12-month period. Roche and we have each agreed to customary indemnification and contribution provisions with respect to liability incurred in connection with these registrations.

Dispositions by Roche

If Roche and its affiliates sell their majority ownership in our common stock to a successor, Roche will cause the successor to purchase all shares of our common stock not held by Roche:

if the consideration is entirely in either cash or equity traded on a U.S. national securities exchange, with consideration in the same form and amounts per share as received by Roche and its affiliates; or

in any other case, with consideration either in the same form and amounts per share as received by Roche and its affiliates or with consideration that has a value per share not less than the weighted average value per share received by Roche and its affiliates as determined by an investment bank of nationally recognized standing appointed by a committee of independent directors.

Roche has agreed to cause the buyer to agree to be bound by the obligations described in the preceding paragraph as well as the obligations described under Business Combinations with Roche and Compulsory Acquisitions below. We have agreed that the buyer shall be entitled to succeed to Roche's rights described under Roche's Right to Proportional Representation.

Business Combinations with Roche

Roche has agreed that as a condition to any merger of the Company with Roche or its affiliates or the sale of substantially all of our assets to Roche or its affiliates, that either:

the merger or sale must be authorized by a favorable vote at any meeting of a majority of the shares of common stock not owned by Roche, provided that no person or group shall be entitled to cast more than 5% of the votes cast at the meeting; or

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in the event a favorable vote is not obtained, the value of the consideration to be received by the holders of our common stock, other than Roche, shall be equal to or greater than the average of the means of the ranges of fair values for the common stock as determined by two investment banks of nationally recognized standing appointed by a committee of independent directors.

Roche has agreed that it will not sell any shares of our common stock in the 90 days immediately preceding any proposal by Roche for a merger with us. Roche also agreed that in the event of any merger of the Company with Roche or its affiliates or sale of substantially all of our assets to Roche or its affiliates, each unvested option outstanding under our stock option plans will:

be accelerated and become exercisable immediately prior to the consummation of the transaction for the total number of shares of common stock covered by the option;

become exchangeable upon the consummation of the transaction for deferred cash compensation, which vests on the same schedule as the shares of the common stock covered by the option, having a value equal to the product of (A) the number of shares covered by the option and (B) the amount which Roche, in its reasonable judgment, considers to be equivalent in value to the consideration per share received by common stock holders in the transaction other than Roche, minus the exercise price per share of the option; or

be canceled in exchange for a replacement option to purchase stock of the surviving corporation in the transaction with the terms

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of the option to provide value equivalent, as determined by Roche in its reasonable discretion, to that of the canceled option.

Compulsory Acquisitions

If Roche owns more than 90% of our common stock for more than two months, Roche has agreed to, as soon as reasonably practicable, effect a merger of the Company with Roche or an affiliate of Roche.

The merger shall be conditioned on the vote or the valuation described under the first two bullets of Business Combinations with Roche above.

Roche's Ability to Maintain its Percentage Ownership Interest in Our Stock

The affiliation agreement provides, among other things, that we will establish a stock repurchase program designed to maintain Roche's percentage ownership interest in our common stock. The affiliation agreement provides that we will repurchase a sufficient number of shares pursuant to this program such that, with respect to any issuance of common stock by us in the future, the percentage of our common stock owned by Roche immediately after such issuance will be no lower than Roche's lowest percentage ownership of our common stock at any time after the offering of common stock occurring in July 1999 and prior to the time of such issuance, except that we may issue shares up to an amount that would cause Roche's lowest percentage ownership to be no more than 2% below the Minimum Percentage.

The Minimum Percentage equals a fraction (expressed as a percentage) where the numerator is the lowest number of shares of our common stock owned by Roche since the July 1999 offering (to be adjusted in the future for dispositions of shares of our common stock by Roche), and the denominator is 1,018,388,704 which is the number of shares of our common stock outstanding at the time of the July 1999 offering as adjusted for the two-for-one splits of our common stock in November 1999, October 2000 and May 2004. Each of the numerator and denominator are to be adjusted in the future for stock splits or stock combinations.

As long as Roche's percentage ownership is greater than 50%, prior to issuing any shares, the affiliation agreement provides that we will repurchase a sufficient number of shares of our common stock such that, immediately after its issuance of shares, Roche's percentage ownership will be greater than 50%. The affiliation agreement also provides that, upon Roche's request, we will repurchase shares of our common stock to increase Roche's ownership to the Minimum Percentage.

Roche owned approximately 56.1% of our common stock as of December 31, 2004. The provisions of this stock repurchase program terminate upon Roche owning less than 40% of our stock.

Furthermore, Roche has a continuing option (which is assignable by Roche to any of its affiliates) to (i) buy from us, prior to the occurrence of any event that could result in a decrease in the percentage of common stock owned by Roche and its affiliates, a sufficient amount of our common stock to maintain its then-current ownership percentage and (ii) to buy from us 80% of any class of stock issued by us other than common stock, in each case with a price per share equal to either the average of the last sale

price on each of the five immediately preceding trading days on a U.S. national securities exchange on which the shares are traded or, if the sale prices are unavailable, the value of the shares determined in accordance with procedures reasonably satisfactory to Roche and us.

Tax Sharing Agreement

We have a tax sharing agreement with Roche that pertains to the state and local tax returns in which we will be consolidated or combined with Roche. We calculate our tax liability or refund with Roche for these state and local jurisdictions as if we were a stand-alone entity.

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CORPORATE GOVERNANCE

The Board of Directors

Our Board of Directors is responsible for broad corporate policy and the overall performance of the Company. Board members remain informed of the Company's business by reviewing documents, such as management reports on recommendations for proposed Board actions, provided to them before each meeting and by attending presentations made by the Chief Executive Officer and other members of management during these meetings. They are also advised of actions taken by the Audit, Compensation, Corporate Governance, Executive and Nominations Committees of the Board. Directors have access to all books, records and reports of the Company upon request, and members of management are available at all times to answer any questions.

Our Board of Directors is committed to sound and effective corporate governance practices. In this regard, our Board of Directors has formally adopted Principles of Corporate Governance that guide its actions with respect to the composition of the Board, Board functions and responsibilities, the Board's standing committees, and Board involvement in compliance and ethics matters affecting the Company. The Company also reviewed with the Board provisions of the Sarbanes-Oxley Act and rules of the SEC and the corporate governance listing standards of the NYSE, and our intention is to comply with all applicable rules and listing standards.

The Board is also committed to legal and ethical conduct in fulfilling its responsibilities. The Board expects all directors, as well as officers and employees, to act ethically at all times and to adhere to the policies comprising the Company's codes of ethics known as the Genentech Good Operating Principles. The Board also expects the Chief Executive Officer, the Chief Financial Officer and all senior financial officials to adhere to the Company's Code of Ethics for the CEO and Senior Financial Officials, especially in matters of public disclosure relating to the Company.

The Principles of Corporate Governance, the Genentech Good Operating Principles and the Code of Ethics for the CEO and Senior Financial Officials can be accessed on our website at www.gene.com. These documents are also available in print to any stockholder who requests them by contacting Genentech's Investor Relations department at (650) 225-1599 or by sending an e-mail to investor.relations@gene.com.

Management Executive Committee

The management Executive Committee has responsibility for the overall direction, strategy and operations of the Company, including, among other things, corporate financial performance, commercial performance, research and development, product operations performance and employee development performance. All six members of the management Executive Committee are executive officers of the Company, and one is also a director. Its members hold the following positions at the company:

Chairman and Chief Executive Officer,

President, Commercial Operations,

President, Product Development,

Executive Vice President, Research,

Executive Vice President, General Counsel and Secretary, and

Senior Vice President and Chief Financial Officer.

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PROPOSAL 1 ELECTION OF DIRECTORS

NOMINEES FOR DIRECTOR

The Company's Board of Directors is elected each year at the annual meeting of stockholders. The Company's Board is currently comprised of the following seven directors as provided for in our bylaws:

three independent directors: Herbert W. Boyer, Sir Mark Richmond and Charles A. Sanders;

one Genentech executive officer: Arthur D. Levinson, who is also the Chairman of the Board; and

three Roche directors: William M. Burns, Erich Hunziker and Jonathan K.C. Knowles.

Each of the incumbent directors (other than Sir Mark Richmond) is a current nominee for director on our Board. All of these nominees for director, if elected, will serve until the next annual meeting in 2006 or until a successor is elected or appointed, and we expect each of these nominees to be able to serve if elected. If a director nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for any other person the Board of Directors may select.

If all the nominees for director are elected at the annual meeting, the Board will have one vacancy to be filled by a director who is considered independent under the Company's bylaws, the NYSE corporate governance listing standards and SEC rules. Under the Company's bylaws as well as Delaware law, any vacancy on the Board may be filled by a majority of the directors then in office, even if such number of directors is less than a quorum. The Company is actively searching for a new independent director who will qualify as a financial expert on the Audit Committee and who has the appropriate qualifications to make other valuable contributions to the Board and the Audit Committee.

The persons named in the enclosed proxy card will vote your proxy for the election of each of these nominees unless you indicate otherwise. Proxies may not be voted for a greater number of persons than the nominees named below.

We show below the name and age of each nominee for director (as of December 31, 2004), his current principal occupation, any other position held with the Company, and the period during which he has served as a director of the Company.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation/Position Held</u>	<u>Director since</u>
Herbert W. Boyer, Ph.D.	68	Co-founder of Genentech and Professor Emeritus of Biochemistry and Biophysics at University of California at San Francisco; Director of Genentech	1976

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William M. Burns	57	Chief Executive Officer of the Pharmaceuticals Division and Member of the Executive Committee, The Roche Group; Director of Genentech	2004
Erich Hunziker, Ph.D.	51	Chief Financial Officer and Member of the Executive Committee, The Roche Group; Director of Genentech	2004
Jonathan K. C. Knowles, Ph.D.	57	President of Global Research and Member of the Executive Committee, The Roche Group; Director of Genentech	1998
Arthur D. Levinson, Ph.D.	54	Chairman and Chief Executive Officer of Genentech	1995
Charles A. Sanders, M.D.	72	Former Chairman and Chief Executive Officer of Glaxo, Inc.; Lead Director of Genentech	1999

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS

A VOTE FOR EACH NOMINEE.

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Dr. Boyer, a founder of Genentech who is currently retired, had been a director of Genentech since 1976 when he resigned from the Board in June 1999 in connection with the redemption of our special common stock. He was reelected to the Board in September 1999. He served as a Vice President of Genentech from 1976 to 1991. Dr. Boyer, a Professor of Biochemistry at the University of California at San Francisco from 1976 to 1991, demonstrated the usefulness of recombinant DNA technology to produce medicines economically, which laid the groundwork for Genentech's development. Dr. Boyer has received numerous awards for his research, including the National Medal of Science from President George Bush in 1990, the National Medal of Technology in 1989 and the Albert Lasker Basic Medical Research Award in 1980. He is an elected member of the National Academy of Sciences and a Fellow in the American Academy of Arts and Sciences. In 2001, Dr. Boyer was elected to the National Inventors Hall of Fame. In addition, Dr. Boyer serves as Vice-Chairman of the Board of Directors of Allergan, Inc.

Mr. Burns was elected a director of Genentech in April 2004. He was appointed Chief Executive Officer of the Pharmaceuticals Division of the Roche Group in January 2005 and was elected to the Executive Committee of the Roche Group in 2000. From 2001 to December 2004, Mr. Burns served as Head of the Pharmaceuticals Division of the Roche Group. From 1998 to 2001, Mr. Burns served as the Head of Europe and International Business of Roche Pharmaceuticals. From 1991 to 1998, Mr. Burns served as Global Head of Strategic Marketing and Business Development for Roche Pharmaceuticals. Mr. Burns is a member of the Board of Directors of Chugai Pharmaceuticals in Japan. Pursuant to the affiliation agreement, Mr. Burns is a designee of Roche.

Dr. Hunziker was elected a director of Genentech in April 2004. He joined the Roche Group as Chief Financial Officer in 2001 and was elected to the Executive Committee of the Roche Group at that time. He also served as Controller of the Roche Group from 2001 to 2004. Prior to joining the Roche Group, from 1998 until 2001, Dr. Hunziker was Chief Executive Officer of the Diethelm Group and Diethelm Keller Holding Ltd. Dr. Hunziker joined Corange Ltd (holding company of Boehringer Mannheim Group) where he was appointed Chief Financial Officer in 1997. Dr. Hunziker is a member of the Board of Directors of Holcim Ltd. Pursuant to the affiliation agreement, Dr. Hunziker is a designee of Roche.

Dr. Knowles was elected a director of Genentech in February 1998. He joined the Roche Group as President of Global Research in September 1997. In January 1998, he became a member of the Executive Committee of the Roche Group. Prior to joining the Roche Group, Dr. Knowles served as the Director of Research for Europe of Glaxo from 1995 to 1997 and served as the Director of the Geneva Institute of Glaxo from 1989 to 1995. Pursuant to the affiliation agreement, Dr. Knowles is a designee of Roche.

Dr. Levinson was appointed Chairman of the Board of Directors of Genentech in September 1999 and was elected its President and Chief Executive Officer and a director of the Company in July 1995. Since joining the Company in 1980, Dr. Levinson has been a Senior Scientist, Staff Scientist and the Director of the Company's Cell Genetics Department. Dr. Levinson was appointed Vice President of Research Technology in April 1989, Vice President of Research in May 1990, Senior Vice President of Research in December 1992 and Senior Vice President of Research and Development in March 1993. Dr. Levinson also serves as a member of the Board of Directors of Apple Computer, Inc. and Google, Inc.

Dr. Sanders, who is currently retired, was elected a director of Genentech in August 1999 and the lead director of the Board in February 2003. He served as Chief Executive Officer of Glaxo Inc. from 1989 to 1994, and was the Chairman of the Board of Glaxo Inc. from 1992 to 1995. He also has served on the Board of Directors of Glaxo plc. Previously, he held a number of positions at Squibb Corporation, a multinational pharmaceutical corporation, including Vice Chairman, Chief Executive Officer of the Science and Technology Group and Chairman of the Science and Technology Committee on the Board. Dr. Sanders is a member of the Boards of Directors of Vertex Pharmaceuticals, Trimeris, Inc., Biopure Corporation, Cephalon, Inc., Fisher Scientific International, Inc. and Icagen, Inc. Dr. Sanders has indicated to the Company that he intends to decrease the number of Boards of Directors he serves on in the near future.

Table of Contents**BOARD COMMITTEES AND MEETINGS**

During 2004, the Board of Directors held five meetings. Each of our incumbent directors attended at least 75% of the aggregate number of meetings of the Board and the committees on which the directors serve. None of the members of the Audit, Compensation, Corporate Governance or Nominations Committees was an officer or employee of the Company.

We show below information on the membership, functions and number of meetings of each Board committee held in 2004.

Name of Committee and Members	Functions of the Committee	Number of Meetings
AUDIT	Monitors the independence and performance of, and recommends to the Board, the independent auditor. Meets with the Company's independent auditor to review and discuss the Company's financial statements and quarterly reporting process. Reviews and approves policies relating to maintenance of adequate systems of internal controls, safeguarding of Company assets, provisions of adequate reserves for legal and regulatory matters, tax compliance and strategy, Company investments and risk assessment and management programs.	10
Herbert W. Boyer	Reviews the scope and results of the Company's general audit program.	
Mark Richmond	Pre-approves all audit services and permissible non-audit services provided by the independent auditor.	
Charles A. Sanders	Reviews the reports of the independent auditor and accompanying management letter on the scope and results of their work. Reviews the independent auditor's recommendations concerning the Company's financial practices and procedures.	
COMPENSATION	Administers the Company's equity incentive plans, the Company's bonus program and certain other corporate benefits programs. Reviews and approves the Company's annual bonus pool, annual stock option grants and executive officer compensation, including that of the Chief Executive Officer.	4
Herbert W. Boyer	Elects officers of the Company.	
William M. Burns		
Erich Hunziker		
Jonathan K.C. Knowles		
Mark Richmond		
Charles A. Sanders		
CORPORATE GOVERNANCE	Reviews the Company's policies relating to sales and marketing activities, investor relations, corporate relations, government affairs, equal employment opportunity, legal and regulatory affairs, and the Company's compliance with laws and regulations in those and other areas, and unless reviewed by the entire Board, the effectiveness of the Board of Directors and Board committees.	4
Herbert W. Boyer		

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William M. Burns

Erich Hunziker

Jonathan K.C. Knowles

Mark Richmond

Charles A. Sanders

EXECUTIVE

Established to act when the full Board of Directors is unavailable.
Has the authority of the Board in the management of the business and affairs of the
Company, except those powers that cannot be delegated by the Board of Directo

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Herbert W. Boyer

William M. Burns

Arthur D. Levinson