GEN PROBE INC
Form 10-K
March 13, 2006

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

Form 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-31279
Gen-Probe Incorporated
(Exact name of registrant as specified in its charter)

Delaware	**33-0044608**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
10210 Genetic Center Drive, San Diego, CA	**92121-4362**
(Address of principal executive office)	*(Zip Code)*

Registrant s telephone number, including area code:
(858) 410-8000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
None	None

Securities to be registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.0001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

As of June 30, 2005, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $1.5 billion, based on the closing price of the registrant s common stock on the Nasdaq National Market on that date. Shares of common stock held by each officer and director and by each person who owns 10 percent or more of the outstanding common stock have been excluded because these persons may be considered affiliates. This determination of affiliate status for purposes of this calculation is not necessarily a conclusive determination for other purposes.

As of March 1, 2006, 51,387,882 shares of registrant s common stock, $0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after close of the fiscal year are incorporated by reference into Part III of this report.

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PART I

TRADEMARKS AND TRADE NAMES

ACCUPROBE®, APTIMA®, APTIMA COMBO 2®, DTS®, GASDIRECT®, GEN-PROBE®, LEADER®, PACE®, TIGRIS® and our other logos and trademarks are the property of Gen-Probe Incorporated. PROCLEIX® and ULTRIO® are trademarks of Chiron Corporation. VERSANT® is a trademark of Bayer Corporation. All other brand names or trademarks appearing in this Annual Report on Form 10-K are the property of their respective holders. Use or display by us of other parties trademarks, trade dress or products in this Annual Report is not intended to, and does not imply a relationship with, or endorsement or sponsorship of, us by the trademark or trade dress owners.

FORWARD-LOOKING STATEMENTS

This Annual Report and the information incorporated herein by reference contain forward-looking statements that involve a number of risks and uncertainties, as well as assumptions that, if they never materialize or if they prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Although our forward-looking statements reflect the good faith judgment of our management, these statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in the forward-looking statements.

Forward-looking statements can be identified by the use of forward-looking words such as believes, expects, hopes, may, will, plans, intends, estimates, could, should, would, continue, seeks, pro forma similar words (including their use in the negative), or by discussions of future matters such as the development of new products, technology enhancements, possible changes in legislation and other statements that are not historical. These statements include, but are not limited to, statements under the captions Business, Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations as well as other sections in this Annual Report. You should be aware that the occurrence of any of the events discussed under the heading Item 1A Risk Factors and elsewhere in this Annual Report could substantially harm our business, results of operations and financial condition. If any of these events occurs, the trading price of our common stock could decline and you could lose all or a part of the value of your shares of our common stock.

The cautionary statements made in this Annual Report are intended to be applicable to all related forward-looking statements wherever they may appear in this Annual Report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

ABOUT THIS ANNUAL REPORT

This Annual Report includes market share and industry data and forecasts that we obtained from industry publications and surveys. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. While we are not aware of any misstatements regarding the industry and market data presented herein, the data involve risks and uncertainties and are subject to change based on various factors.

Item 1. *Business*

Overview

We are a global leader in the development, manufacture and marketing of rapid, accurate and cost-effective nucleic acid probe-based products used for the clinical diagnosis of human diseases and for screening donated human blood. We also develop and manufacture nucleic acid probe-based products for the detection of harmful organisms in the environment and in industrial processes. We market and sell our clinical

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diagnostic products in the United States directly and outside the United States primarily through distributors, and we market and sell our other products through collaborative partners.

Founded in 1983, we pioneered the scientific and commercial development of nucleic acid testing, or NAT. By utilizing nucleic acid probes that specifically bind to nucleic acid sequences known to be unique to target organisms, NAT enables detection of microorganisms that are difficult or time-consuming to detect with traditional laboratory methods. We have received United States Food and Drug Administration, or FDA, approvals or clearances for a broad portfolio of products that use our patented technologies to detect a variety of infectious microorganisms, including those causing sexually transmitted diseases, tuberculosis, strep throat, pneumonia and fungal infections. We estimate that our FDA-approved human immunodeficiency virus (type 1), or HIV-1, assay, hepatitis C virus, or HCV, assay, and Procleix West Nile virus, or WNV, assay are currently utilized to screen over 80% of the United States donated blood supply for HIV-1, HCV and WNV. In addition, we believe our TIGRIS instrument is the only integrated, fully-automated, high-throughput instrument approved for NAT testing in clinical diagnostic applications by the FDA. The TIGRIS instrument is also currently used for investigational use in blood screening applications in the United States and has been approved for use in Europe with our Procleix Ultrio assay. We have more than 20 years of nucleic acid detection research and product development experience, and our products are used daily in clinical laboratories and blood collection centers throughout the world. We were awarded a 2004 National Medal of Technology, the nation s highest honor for technological innovation, by President George W. Bush in recognition of our pioneering work in developing NAT tests to safeguard the nation s blood supply.

We generate revenues primarily from sales of clinical diagnostic and blood screening assays. Our clinical diagnostic products are marketed to clinical laboratories, public health institutions and hospitals in the United States and Canada through our direct sales and service force of approximately 57 representatives. Our blood screening products are marketed and distributed worldwide by Chiron Corporation, or Chiron. In addition, we have agreements with Bayer Corporation, bioMérieux, Inc. and Fujirebio, through its subsidiary Rebio Gen, Inc., to market some of our products in various global markets. We are currently involved in arbitration proceedings with Bayer regarding its distribution rights under our collaboration agreement. In addition to product sales, we also generate revenues through research collaborations with government organizations and healthcare companies and through licensing of our patented NAT technologies.

We are developing NAT assays and instruments for the detection of harmful pathogens in the environment, water, industrial processes and pharmaceutical and beverage manufacturing processes. We have entered into collaboration agreements with GE Infrastructure Water and Process Technologies, or GEI, a unit of General Electric Company, and Millipore Corporation, or Millipore, under which we will be primarily responsible for developing and manufacturing assays for exclusive use or sale by our collaborative partners in specified fields within the industrial testing market.

We have achieved a leading position in the industry because of our technologically advanced and reliable NAT assays and instruments, complemented in the clinical diagnostics market by the capabilities of our sales force and technical support group. Our investment in research and development has enabled us to develop a portfolio of proprietary and patented technologies that we combine to create NAT products to meet our customers changing needs for rapid, accurate and cost-effective assays. We also have designed and developed, often with outside vendors, a range of instruments to perform our assays.

We have developed and commercialized what we believe to be the world s first fully automated, integrated, high-throughput, NAT instrument system, the TIGRIS instrument. The TIGRIS instrument can significantly reduce labor costs and contamination risks in high-volume diagnostic testing environments and it also enables large blood collection centers to individually test donors blood. In December 2003, we received approval from the FDA for sexually transmitted disease, or STD, testing on the TIGRIS instrument using our APTIMA Combo 2 assay that detects chlamydia and gonorrhea. We have developed and manufacture the only FDA-approved blood screening assay for the simultaneous detection of HIV-1 and HCV, the Procleix HIV-1/ HCV assay, which is marketed by Chiron. We have also developed the Procleix Ultrio assay, in collaboration with Chiron, which adds an assay for hepatitis B virus, or HBV, to the previously FDA-approved Procleix HIV-1/ HCV assay. In January 2004, the Procleix Ultrio assay, running on our semi-automated

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instrument, received its Conformite Europeene, or CE, mark, which permitted Chiron to launch the product in the European Economic Area. The TIGRIS instrument, and our Procleix Ultrio assay for use on the TIGRIS instrument, received CE marks in December 2004, which permitted Chiron to begin commercialization of the Procleix TIGRIS instrument in the European Economic Area.

In October 2005, the FDA notified us that it considers our TIGRIS instrument for blood screening not substantially equivalent to our already cleared enhanced semi-automated instrument system, or eSAS, for screening donated human blood with the Procleix Ultrio assay. The FDA made this determination in response to our 510(k) application for the TIGRIS instrument for blood screening. Also in October 2005, we received a complete review letter from the FDA setting forth questions regarding our Biologics License Application, or BLA, for the Procleix Ultrio assay itself. We anticipate submitting a BLA amendment for the Procleix Ultrio assay for use on eSAS, responding to the FDA s questions, by the end of the first quarter of 2006. We anticipate submitting a new 510(k) application for the TIGRIS instrument for use with the Procleix Ultrio assay following clearance of the TIGRIS instrument for use with the WNV assay. We anticipate submitting a (post-approval) BLA supplement for the Procleix Ultrio assay, for use on the TIGRIS instrument, following approval of the BLA for the Procleix Ultrio assay on eSAS. There can be no assurance that the Procleix Ultrio assay will receive regulatory approval by the FDA or that the TIGRIS instrument will receive FDA clearance for use with the WNV or Procleix Ultrio assays.

On December 1, 2005, the FDA granted marketing approval for our WNV assay on eSAS to screen donated human blood. The 510(k) clearance of eSAS for use with the WNV assay was granted prior to the assay s approval. We intend to submit for 510(k) clearance of the TIGRIS instrument for use with the WNV assay in the first part of 2006. We plan to submit a (post-approval) supplement to our WNV assay BLA, adding the TIGRIS instrument, at approximately the same time.

We were incorporated under the laws of the state of Delaware in 1987. In September 2002, we were spun off from Chugai Pharmaceutical, Ltd., our former indirect parent, as a separate, stand-alone company. Our common stock began trading on The Nasdaq National Market on September 16, 2002.

We make available free of charge on or through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Our Internet address is http://www.gen-probe.com. The information contained in, or that can be accessed through, our website is not part of this Annual Report.

The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room located at 450 Fifth Street NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of our reports on its website at www.sec.gov.

Technology

Nucleic acid testing technology is based on detection of unique portions of nucleic acids, which store and transfer genetic information in all living organisms. The two main types of nucleic acids are deoxyribonucleic acid, or DNA, and ribonucleic acid, or RNA. DNA functions as a stable repository of genetic information, while RNA typically serves to transfer the information stored within DNA to the cell s machinery for making proteins.

DNA and RNA are both composed of chains of chemical subunits called nucleotides. There are four types of nucleotides in DNA, which differ in one chemical part called a base. The four different bases are: adenine, thymine, guanine and cytosine (abbreviated A, T, G and C). These four nucleotides form the building blocks of all DNA. The sequence of the individual A, T, G and C nucleotides in a DNA molecule encodes the genetic information that instructs the cell how to make particular proteins. Because DNA sequences determine which proteins a cell will make, the differences in a cell s DNA sequences make the cells of one organism differ from the cells of another.

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Most DNA in cells exists in the form of a double-stranded structure that resembles a twisted ladder. In double-stranded DNA, the nucleotides on opposite sides of the ladder are always paired in a precise way. An A nucleotide binds only to a T nucleotide on the opposite strand, and vice versa. Likewise, a G nucleotide binds only to a C nucleotide, and vice versa. Each combination of an A nucleotide with a T nucleotide (or a C with a G) is ref to as a base pair. The way in which each type of nucleotide binds only to one other type of nucleotide is called complementary base pairing. As a result of complementary base pairing, the sequence of nucleotides on one strand of a DNA molecule necessarily determines the sequence of nucleotides on the opposite strand.

The attraction of a nucleotide sequence to its complementary sequence allows a scientist to use pieces of nucleic acid as probes to detect the presence of a target nucleic acid in a test sample. If two complementary pieces of DNA (or RNA) are present in a solution under the right conditions, the complementary bases will come together and bind to form a double strand. This method is commonly known as nucleic acid hybridization. Nucleic acid hybridization techniques can be applied in a diagnostic test to detect an infectious organism (the target organism) by the use of a suitably labeled short nucleotide sequence or probe that is designed to bind specifically to a complementary nucleic acid sequence known to be unique to the target organism. The sample suspected of containing the infectious organism is treated to break open the organism, release its nucleic acids into the solution, and render them single-stranded, if necessary. The specific probe is then added, and conditions conducive to hybridization are established.

If the target organism is present in the sample, the probe should bind to the target organism s nucleic acids because the sequence of the probe has been designed to be complementary to them. By attaching a detectable label to a probe, it is possible to determine how much, if any, of that probe has bound to sequences from the target organism.

In order to facilitate detection of the target, it is desirable in many instances to increase the amount of target nucleic acid present in a sample by a process known as amplification. The goal of target amplification technologies such as our patented Transcription-Mediated Amplification, or TMA, method is to produce millions of copies of the target nucleic acids, which can then be detected using DNA or RNA probes.

Current Market Opportunity

Overview

The NAT market developed in response to a need for more rapid, sensitive and specific diagnostic tests for the detection of infectious microorganisms than were previously available using traditional laboratory procedures, such as culture and immunoassays. Culture methods require the growth of a microorganism in a controlled medium and can take several days or longer to yield a definitive diagnostic result. By contrast, nucleic acid probes, which specifically bind to nucleic acid sequences that are known to be unique to the target organisms, can generally deliver a diagnostic result in just hours. For example, culture tests for *Mycobacterium tuberculosis* can take six to eight weeks for a traditional culture-based diagnosis, compared to only a few hours for NAT. The greater sensitivity and increased specificity of NAT allows for the detection of the presence of a lower concentration of the target organism and helps clinicians distinguish between harmful and benign microorganisms, even when the organisms are closely related, reducing the potential for false negative results and thus the number of undiagnosed individuals or individuals who are incorrectly diagnosed as having the disease. For example, the greater sensitivity of amplified NAT allows for the rapid, direct detection of a target organism like *Chlamydia trachomatis* in urine, even when it is present in low concentrations. In addition, without amplified NAT, more invasive methods of collection like cervical or urethral swabs must be used.

According to Boston Biomedical Consultants, Inc., the worldwide in vitro diagnostic, or IVD, NAT market was approximately $2.1 billion in 2005. While NAT represents only a small portion of the estimated $30 billion worldwide IVD market, it is one of the fastest growing segments. Boston Biomedical Consultants, Inc. reported that the worldwide NAT market grew approximately 10% from 2004 to 2005. We focus our business on market opportunities in three segments of the NAT market, clinical diagnostics, blood screening and industrial testing. The clinical diagnostic market has historically accounted for the majority of our NAT

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sales. According to Sannes and Associates, Inc., our products represented approximately 51% of the total chlamydia and gonorrhea tests sold in the United States in 2005. In blood screening, we estimate that our Procleix HIV-1/ HCV assay and WNV assay are currently utilized to screen over 80% of the United States donated blood supply for HIV-1, HCV and WNV. In order to address the emerging NAT market for industrial testing, in July 2005, we entered into a collaboration agreement with GEI to develop, manufacture and commercialize NAT products designed to detect the unique genetic sequences of microorganisms for GEI s exclusive use or sale in selected water testing applications. In August 2005, we entered into a collaboration agreement with Millipore to develop, manufacture and commercialize NAT products for rapid microbiological and viral monitoring for Millipore s exclusive use or sale in process monitoring in the biotechnology and pharmaceutical manufacturing industries. The diagram below illustrates existing and emerging worldwide NAT markets with some examples of product targets of Gen-Probe and others within each category.

The Product Categories in Which We Compete

Clinical Diagnostics for the Detection of Non-Viral Microorganisms. NAT assays currently are used to detect the microorganisms causing various STDs, including chlamydia and gonorrhea, as well as those causing various other infectious diseases, such as *Mycobacterium tuberculosis*, Group A Streptococcus and Group B Streptococcus.

Chlamydia, the common name for the condition of infection with the bacterium *Chlamydia trachomatis*, is the most prevalent bacterial sexually transmitted infection in the United States, with an estimated

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2.8 million new cases in the United States each year according to the Centers for Disease Control, or CDC. The clinical consequences of undiagnosed and untreated chlamydia infections include pelvic inflammatory disease, ectopic pregnancy and infertility. Gonorrhea, the disease caused by the bacterium *Neisseria gonorrhoeae*, is the second most frequently reported bacterial STD in the United States, according to the CDC. The CDC estimates that each year approximately 700,000 people in the United States develop gonorrhea. Untreated gonorrhea is also a major cause of pelvic inflammatory disease, which may lead to infertility or abnormal pregnancies. In addition, recent data suggest that gonorrhea facilitates HIV transmission. Chlamydia and gonorrhea infections frequently co-exist, complicating the clinical differential diagnosis. Because chlamydia and gonorrhea infections are often asymptomatic, screening programs are important in high-risk populations such as sexually active men and women between the ages of 15 and 25.

Tuberculosis, or TB, the disease caused by the microorganism *Mycobacterium tuberculosis*, remains one of the deadliest diseases in the world. Group B Streptococcus, or GBS, represents a major infectious cause of illness and death in newborns in the United States and can cause epilepsy, cerebral palsy, visual impairment, permanent brain damage and retardation. Group A Streptococcus, or GAS, is the cause of strep throat, which if left untreated may cause serious complications, such as rheumatic fever and rheumatic heart disease.

Clinical Diagnostics for the Detection of Viral Microorganisms. NAT assays can be used to detect viral DNA or RNA in a patient sample. These tests can be qualitative, meaning that the tests simply provide a yes-no answer for the presence or absence of the virus, or quantitative, meaning that the quantity of virus is determined in the patient sample.

HIV is the virus responsible for acquired immune deficiency syndrome, or AIDS. Individuals with AIDS show progressive deterioration of their immune systems and become increasingly susceptible to various diseases, including many that rarely pose a threat to healthy individuals.

HCV is a blood-borne pathogen posing one of the greatest health threats in developing countries. According to WHO, about 80% of newly infected patients progress to develop chronic infection, which can lead to both cirrhosis and liver cancer. WHO reports that approximately 170 million people are infected worldwide with HCV. According to the CDC, an estimated 3.9 million people in the United States have been infected with HCV, of whom 2.7 million are chronically infected.

HBV remains a major public health problem worldwide, though new HBV infections per year in the United States have declined significantly since the 1980s. Chronic HBV infection can lead to the development of severe, potentially fatal complications, such as cirrhosis of the liver.

Blood Screening. The field of blood screening has been one of the fastest growing areas for NAT assays. According to the World Health Organization, or WHO, each year more than 75 million units of blood are donated worldwide. Before being used for transfusion, blood must be screened to ensure that it does not contain infectious agents. The most serious threats to recipients of donated blood include HIV, HCV and HBV. There is also concern over the presence of other viruses in the donated blood supply, such as WNV. In the United States, most blood collection centers perform NAT screening of donated blood by taking samples from individual units of blood and then combining these samples into pools of 16 or 24 samples. These pooled samples are then tested to determine whether a virus is present. If the presence of a virus is detected, additional testing is then conducted to determine which sample in the pool contains the virus. Some blood collection centers, such as the United States military, test blood units individually rather than in pools.

Prior to the introduction of NAT for blood screening, blood collection centers primarily used immunoassays to determine the presence of blood-borne pathogens through the detection of virus-specific antibodies and viral antigens. These tests either directly detect the viral antigens or detect antibodies formed by the body in response to the virus. However, this response may take some time. Consequently, if the donor has not developed detectable antibodies or detectable amounts of viral antigens as of the time of the donation, recipients of that blood may be unwittingly exposed to serious disease. In the case of HIV-1, antibodies are detectable in the blood approximately 22 days after infection. With HCV, the window between the time of infection and the detection of the antibodies is much longer, approximately 70 days or more. NAT technology can narrow both windows significantly through amplification and detection of the nucleic acid material of the

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viruses themselves rather than requiring the development of detectable levels of antibodies or viral antigens. According to the CDC, NAT will reduce the window period for HIV-1 detection from 22 days for tests relying on HIV-1 antibodies to 12 days. We believe that NAT reduces the window period for HCV detection by approximately 50%, compared to tests relying on HCV antibodies. We believe that with individual donor testing, or IDT, NAT assays may reduce the window period for HBV detection by up to 42%, compared to HBV antibody tests for detection of HBV surface antigen. We also believe that the only practical means of accomplishing IDT for HBV detection will be through the use of a fully automated instrument such as our TIGRIS instrument. IDT on our TIGRIS instrument was demonstrated as part of our Procleix WNV TIGRIS Investigational New Drug application, or IND, for IDT.

Industry Growth Trends

Adoption of amplified screening technology. We believe that the market for clinical diagnostic products for the detection of non-viral microorganisms, particularly STDs, will expand due to the adoption of amplified screening technology. Amplification is particularly advantageous when screening for the presence of a microorganism when the level of that microorganism in clinical samples might be insufficient to permit detection with other methods. While potential carriers of STDs may forego diagnosis if faced with invasive methods of testing, we believe amplified NAT technology, which can use samples collected non-invasively, such as urine, will expand screening of high-risk populations and asymptomatic individuals.

Advances in automated testing. We believe that the introduction of automated instrumentation, such as our TIGRIS instrument, will facilitate growth in both the clinical diagnostics and blood screening segments of the NAT market. It is becoming increasingly difficult for clinical laboratories to recruit and retain skilled laboratory technologists. Within the STD segment, we anticipate that demand for automated testing will increase as the technology is applied to diagnose new target microorganisms, including human papillomavirus, or HPV, which has been linked to cervical cancer, and the herpes simplex virus. The rate of market growth for testing additional STD-related microorganisms will depend heavily upon automation, as well as continuing advances in testing methodologies that address the issues of specificity, sensitivity, contamination, ease of use, time to results and overall cost effectiveness.

Increased focus on safety of blood supply. We believe blood collection centers will continue to focus on improving the safety of donated blood by adopting the most advanced blood screening technologies available. In addition, we believe that some blood collection centers will seek to adopt individual donor testing for some or all organisms, rather than the testing of pooled samples, as automated instrumentation technologies make such testing feasible. During the peak period of the WNV season in each of 2004 and 2005, various blood collection centers used our technology and assays, under an investigational exemption, for individual donor testing. Approximately 1,500 infected units have been intercepted using our WNV assay since June 2003.

Demand for improved diagnostic tests for cancer. New markers that correlate to the presence of cancer cells are being discovered at an ever-increasing rate, and we believe that once these markers have been clinically validated, there will be a large market for NAT-based cancer diagnostic products. Our license and collaboration agreement with DiagnoCure Inc. and our license agreements with Corixa Corporation and the Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc. could represent an innovative application of our NAT technology to detect genetic markers for prostate cancer in urine. In addition, we have recently entered into a research agreement with SmithKline Beecham Corporation, doing business as GlaxoSmithKline, and SmithKline Beecham (Cork) Ltd., together referred to as GSK, and a research agreement with the Henry M. Jackson Foundation and the Uniformed Services University of Health Sciences, that together operate the Center for Prostate Disease Research, which we believe will provide us with opportunities to further assess our cancer diagnostic portfolio. We have also licensed innovative cell capture technology from AdnaGen AG that may allow for improved isolation of prostate cancer cells.

Emerging opportunities in industrial testing market for rapid molecular methods. We believe that significant new opportunities are emerging for NAT-based products in various industrial market segments, including quality control testing in biopharmaceutical processes and environmental and industrial water testing for harmful bacteria. We believe the move to rapid molecular methods is being driven by economic factors as

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well as regulatory factors such as the FDA s Process Analytical Technology, or PAT, initiative to encourage pharmaceutical companies to adopt rapid methods to test their manufacturing processes for the presence of objectionable organisms. We believe our collaborations with GEI and Millipore will facilitate our development of new products for, and access to, these new markets.

Development of other emerging markets for NAT technology. We believe markets will continue to develop for new applications for NAT technology in other clinical and non-clinical fields. Among clinical fields, we believe NAT technology will be utilized in the areas of new analytes, such as genetic predisposition testing and pharmacogenomics, which involves the study of the relationship between nucleic acid variations and an individual s response to a particular drug.

We believe that NAT diagnostic assays will be used in the field of pharmacogenomics to screen patients prior to administering new drugs. Many genetic variations are caused by a single mutation in nucleic acid sequence, a so-called single nucleotide polymorphism, or SNP. Individuals with a specific SNP in a drug metabolism gene may not respond to a drug or may have an adverse reaction to that drug because the body may not metabolize the drug in a normal fashion. We believe the emergence of pharmacogenomics and individually targeted therapeutics will create opportunities for diagnostic companies to develop tests to detect genetic variations that affect responses to drug therapies.

Genetic testing to identify individuals at risk of certain diseases and pathological syndromes is emerging as an additional market for NAT technology. NAT-based testing for SNPs and other genetic anomolies can be used to determine an individual s predisposition to such conditions as thrombosis or bloodclotting. Our license of bioMérieux s intellectual property rights for the factor V and prothrombin mutation tests could allow us to access this market.

In addition to testing in biopharmaceutical processes and environmental and industrial water testing, emerging non-clinical markets for NAT include food, beverage, personal care products manufacturing and bioterrorism detection testing. Today, these markets predominately use traditional methods for microbiological testing, such as culture. However, we believe NAT testing has the potential to provide more rapid and efficient tests in these markets.

Improvements in Detection Technologies. The majority of current amplified nucleic acid tests provide an end point result, requiring that the amplification and detection processes be completed before a result is obtained. New technology permits kinetic or real-time detection of target analytes as amplification proceeds, permitting conclusions to be drawn before the amplification process is complete, and thereby reducing the time to result. Real-time detection methods are also capable of providing both a qualitative and quantitative result from a single test. Initial real-time products have been introduced by several companies. For example, on January 23, 2006, Abbott Laboratories announced it had received CE mark certification for a new real-time test for the simultaneous detection of *Chlamydia trachomatis* and *Neisseria gonorrhoeae*, allowing the test to be marketed in the European Economic Area. In April 2005, Roche announced CE mark certification for its real-time COBAS AmpliPrep/ COBAS TaqMan tests for HIV-1, HCV, and HBV. We intend to develop assays for our collaborations with GEI and Millipore using real-time technology.

Our Competitive Strengths

Our competitive strengths form the foundation for our business and position us to compete effectively within the NAT market.

Proprietary Core Technologies

We believe that we have developed one of the broadest portfolios of NAT technologies in the industry. Our products incorporate these technologies, which, in combination, have significantly advanced our NAT assays, making them more specific, more sensitive, easier to use and faster to result than products based on competing NAT technologies. For example, our proprietary Transcription-Mediated Amplification, or TMA, technology offers significant advantages over other available amplification methods, including Polymerase Chain Reaction, or PCR. We believe TMA technology allows our products to offer a higher degree of

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sensitivity, less risk of contamination and greater ease of use than our competitors amplified products. We believe our target capture technology, which is used to extract either molecules with specific target sequences or all genetic material from a complex clinical specimen, can remove inhibitory substances that interfere with amplification, can be easily automated, and can be performed quickly. In the past, we have leveraged our core technologies to develop products that have achieved leading positions in new NAT markets, such as blood screening and STD testing. We plan to continue to use our core NAT technologies, and technologies that we may acquire, as a platform for the development of additional products addressing opportunities in existing and emerging segments of the NAT market.

Extensive Range of FDA-Approved Products and Intellectual Property Portfolio

We believe that we are unique in offering our customers a broad range of both non-amplified and amplified NAT assays, as well as multiple instruments on which to perform these assays. Our expertise in NAT products has enabled us to develop FDA-approved products for the detection of microorganisms causing infectious diseases. In February 2002, we received FDA approval for our Procleix HIV-1/ HCV assay, which we estimate is currently utilized to screen over 80% of the United States donated blood supply for HIV-1 and HCV. In December 2005, the FDA granted us marketing approval to use our WNV assay to screen donated human blood on eSAS. Our NAT assays currently are performed on our proprietary luminometers and our semi-automated Direct Tube Sampling, or DTS, and TIGRIS (in the case of our APTIMA Combo 2 and Procleix Ultrio assays) instruments. As of December 31, 2005, we had more than 390 United States and foreign patents covering our products and technologies, and we proactively pursue an aggressive patent strategy designed to protect both existing products and new innovations.

Innovative Product Research and Development

We pioneered the development of the NAT market with our introduction of the first FDA-approved probe-based assay in 1985. As of December 31, 2005, our world-class research and development group consisted of 230 full-time employees, 108 of whom hold advanced degrees. From our PACE family of products to our amplified APTIMA Combo 2 assay, which can detect both chlamydia infections and gonorrhea in urine samples from symptomatic or asymptomatic patients, and our Procleix Ultrio assay that detects HIV-1, HCV and HBV in donated blood, our scientists have developed proprietary assays that have brought significant innovation to the market for NAT clinical diagnostics and blood screening. To complement these products, we have developed and continue to develop instrumentation technologies that enable our customers to increase throughput while improving accuracy in a cost-effective manner. We have developed, and launched in 2004, what we believe to be the world s first fully automated, integrated, high-throughput, NAT instrument system, known as the TIGRIS instrument. We were awarded a 2004 National Medal of Technology, the nation s highest honor for technological innovation, in recognition of our pioneering work in developing NAT tests to safeguard the nation s blood supply. Our current initiatives to expand our position in clinical diagnostics and blood screening, while applying our core NAT technologies to cancer detection and industrial testing, are consistent with our philosophy of designing innovative products to meet the existing needs of our customers as well as the emerging needs of new markets.

Brand Recognition

We believe that we benefit from significant brand name recognition and customer loyalty among laboratories, blood collection agencies and physicians in the market for NAT assays. We believe our history of technological innovation, quality manufacturing, comprehensive sales capabilities and commitment to customer support has resulted in customer satisfaction and retention. We estimate that greater than 90% of our STD product sales during 2005 were to repeat customers. We believe that our brand name also facilitates market acceptance of our new products, providing us with opportunities for growth. Based on information we receive from Chiron, we believe that since 1998 the American Red Cross has used us as its sole source for NAT assays for blood screening, which we believe exemplifies our standing in the industry.

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Sales and Technical Support Capabilities

As of December 31, 2005, our direct sales force consisted of approximately 41 representatives and a 16-member technical field support group. We believe that these individuals comprise one of the most knowledgeable and effective sales and support organizations in the molecular diagnostics industry. Our sales representatives have an average of approximately 20 years of overall sales experience, with an average of approximately eight years focused on sales of NAT products. We view our long-standing relationships with laboratory customers and the value-added services that our sales force and technical field specialist group offer, including technical product assistance, customer support and new product training, as central to our success in the United States clinical diagnostics market. We complement our sales force with leading international distributors and the direct sales organizations of our collaborative partners.

Regulatory, Clinical and Quality Assurance Experience

Our products, design control and manufacturing processes are regulated by numerous third parties, including the FDA, foreign governments, independent standards auditors and customers. Our team of over 100 regulatory, clinical and quality systems professionals has successfully led us through multiple quality and compliance audits. We began production in our blood screening product manufacturing facility in 1999. This facility meets the strict standards set by the FDA s Center for Biologics Evaluation and Research, or CBER, for the production of blood screening products. In addition, we have obtained EN 13485 certification from TUV, a global leader in independent testing and assessment services. We believe our expertise in regulatory, clinical and quality assurance and our manufacturing facilities enable us to efficiently and effectively design, manufacture and secure approval for new products and technologies that meet the rigorous standards set by governing bodies and our customers.

Our Growth Strategy

We have successfully created and maintained a leadership position in a number of segments of the NAT testing market. From this strong position, we plan to grow our business through the following strategies:

Establish Leadership Positions in New Markets by Leveraging Our Core Technologies

We have had a successful track record in identifying new product and market opportunities and becoming the market leader in a number of NAT testing segments by providing innovative product solutions based on our proprietary technology base. In the past, we have utilized our patented technology portfolio, innovation and market development expertise to establish leadership positions in areas such as chlamydia and gonorrhea testing. Our ability to strategically identify and assume leadership roles in new markets was evidenced by our entrance into the blood screening market. We successfully developed the first FDA-approved NAT assay for HIV-1/ HCV detection, our Procleix HIV-1/ HCV assay, which we estimate is currently used to screen over 80% of the United States donated blood supply. Our WNV assay, which received FDA marketing approval in December 2005 for screening donated human blood on eSAS, also is currently being used to screen more than an estimated 80% of the United States blood supply. We received CE mark clearance for the use of the Procleix Ultrio assay in conjunction with our TIGRIS instrument for Europe, which represents the first fully automated blood screening NAT system cleared for commercial distribution in Europe.

We currently are exploring opportunities to develop new products for emerging NAT markets. We recently developed analyte specific reagents, or ASRs, for the detection of PCA3, a genetic marker for prostate cancer. Our license and collaboration agreement with DiagnoCure Inc. and our license agreements with Corixa Corporation and the Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc. could represent an innovative application of our NAT technology to detect genetic markers for prostate cancer in urine. In July 2005, we entered into a collaboration agreement with GEI to develop, manufacture and commercialize NAT products designed to detect the unique genetic sequences of microorganisms for GEI s exclusive use or sale in selected water testing applications. In August 2005, we entered into a collaboration agreement with Millipore to develop, manufacture and commercialize NAT products for rapid microbiological and viral monitoring for Millipore s exclusive use or sale in process monitoring in the

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biotechnology and pharmaceutical manufacturing industries. We also are evaluating product opportunities in genetics, pharmacogenomics, food and environmental testing.

Deliver Proprietary Automated and Fully Integrated Systems for NAT Assays

We intend to continue to develop instruments that complement our existing and anticipated product lines for use in clinical diagnostics, blood screening and industrial testing. For example, we have developed and received FDA approval for STD testing on the TIGRIS instrument. The TIGRIS instrument should significantly reduce the time, labor costs, risk of contamination and complexity associated with performing NAT assays and blood screening. We believe that the increased utility of this platform will lead to significant advances in both the clinical diagnostics and blood screening markets. The automation and increased throughput of the TIGRIS instrument will enable blood collection centers to process the large testing volumes necessary to screen each individual unit of donated blood for the presence of life-threatening viruses. In addition to the TIGRIS instrument, we currently are developing other next-generation systems to meet customers needs for increased productivity, automation and point of care or field testing capabilities. Ultimately, we believe this approach of providing our customers with the latest generation of systems solutions will allow us to reinforce our market position and brand recognition and penetrate new markets.

Expand Our Menu of NAT Probe Assays through Innovative Research and Development

We intend to continue to use a systems approach to product development, which involves combining elements of our core proprietary technologies to create products that best meet our customers needs. For example, the Procleix Ultrio assay, which we developed in collaboration with Chiron, adds an assay for HBV to the previously approved Procleix HIV-1/ HCV assay and is designed to detect the presence of all known HIV-1 groups and subtypes and HCV and HBV genotypes in human plasma during the very early stages of infection, when those agents are present but cannot be detected by immunodiagnostic tests. By understanding how our technologies complement one another and by combining reagents in our new products, we expect to capitalize on the substantial product development work that we invested in existing products. We believe that this approach and our experience in bringing FDA-approved products to market will reduce development cycle times for new products, which, in turn, will help us expand our menu of clinical diagnostic and blood screening products available to be performed on the instruments we place with our customers.

Pursue Future Licensing and Acquisition Opportunities

We historically have supplemented our internal research and development efforts by obtaining licenses to new technologies. To maintain our leadership position in NAT testing, we intend to selectively obtain rights to complementary technologies through licenses and acquisitions. For us to enter emerging NAT markets such as cancer testing, genetics, pharmacogenomics and industrial testing, we may need to obtain rights both to new technologies and to disease markers that are discovered and clinically validated by third parties. For example, in 2003, we signed a license and collaboration agreement with DiagnoCure to develop an innovative urine test to detect the PCA3 gene marker for prostate cancer. In addition, in December 2004, we entered into a license agreement with Corixa Corporation pursuant to which we received rights to develop molecular diagnostic tests for multiple potential genetic markers in the areas of prostate, ovarian, kidney, lung, colon and other cancers. In December 2005, we entered into a license agreement with the Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc. for access to additional markers that we believe could help us to further increase the accuracy of our tests for prostate cancer.

Expand Collaborative Relationships to Accelerate New Product Development and Enhance Our Global Marketing Capabilities

We will pursue collaborative relationships that enable us to implement our strategies, particularly with respect to the development of new products and entry into new markets. We seek to partner with industry leaders who can offer access to intellectual property or who can complement our commercialization capabilities by distributing co-developed products through their sales organizations. For example, our collaboration with Chiron for the blood screening market has allowed us to combine our NAT technology with

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Chiron s patent portfolio relating to HIV and HCV and to leverage Chiron s distribution and sales resources. Further, we believe our collaborations with GEI and Millipore, pursuant to which each will manage worldwide commercialization of any products resulting from the respective collaborations, will enable us to access their large customer bases in the markets for industrial water testing and biopharmaceutical processes testing, respectively.

Our Proprietary NAT Technologies

We have developed technologies that make NAT assays practical and effective for commercial use, thereby overcoming many of the limitations of previous DNA probe assays that restricted their use to research laboratories. Our products incorporate a combination of patented technologies that have significantly advanced NAT assays, making them more specific, more sensitive, easier to use and faster to result than products based on competing technologies. These technologies include the following:

targeting of ribosomal RNA, or rRNA;

target capture/nucleic acid extraction technology;

Transcription-Mediated Amplification technology;

chemiluminescent detection using Hybridization Protection Assay and Dual Kinetic Assay technologies; and

fluorescent real-time detection technology.

Together, these technologies have allowed us to commercialize new diagnostic tools that provide results in hours instead of days or weeks. This has led to quicker time to result and diagnosis, thereby making a difference in patient treatment and outcome.

Targeting Ribosomal RNA. We have developed and patented a technique that detects and identifies organisms by targeting their rRNA. The major benefits in targeting rRNA include the following:

Each bacterial cell contains up to 10,000 copies of rRNA, as compared with only a few copies of DNA. Most of our competitors NAT assays target DNA, which is present in only one or two copies in each target organism cell. Therefore, by using a probe that hybridizes to rRNA, the sensitivity of the test is increased thousands of times. This has allowed us to develop indirect and direct probe tests that are used with cultured samples or samples drawn directly from the patient.

The high number of rRNA targets also offers significant advantages when target-amplified assays are used. When very small numbers of organisms are present in a sample, they may not be present in the portion of the sample used for the assay, despite being present in the sample. This would result in a negative test result. By breaking open the organisms prior to sampling, the multiple copies of rRNA targets are dispersed throughout the sample volume and the likelihood of detecting them is increased many fold. Thus, the likelihood of obtaining a false negative result is significantly less than is the case when single-copy DNA is targeted.

rRNA molecules naturally exist as single strands that can directly hybridize with our chemiluminescent labeled DNA probes. This is in contrast to most DNA targets, which exist as double strands that must be separated before a probe can bind. These separated DNA strands tend to hybridize to each other rather than to the DNA probe, thus limiting the amount of DNA probe that can bind and the overall sensitivity of the test.

rRNA molecules are present in all bacteria, fungi and parasites. This gives us the ability to design diagnostic products for emerging infectious diseases caused by these pathogens.

Target Capture/ Nucleic Acid Extraction Technology. Detection of target organisms that are present in small numbers in a large-volume clinical sample requires that target organisms be concentrated to a detectable level. One way to accomplish this is to isolate the particular nucleic acid of interest by binding it to a solid

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support, which allows the support, with the target bound to it, to be removed from the original sample. We refer to such techniques as target capture.

We have developed target capture techniques to immobilize nucleic acids on magnetic beads by the use of a capture probe that attaches to the bead and to the target nucleic acid. We use a magnetic separation device to concentrate the target by drawing the magnetic beads to the sides of the sample tube, while the remainder of the sample is washed away and removed. When used in conjunction with our patented amplification methods, target capture techniques concentrate the target organisms and also remove materials in the sample that might otherwise interfere with amplification.

Target capture offers the following benefits:

Concentration of target organisms from large volume samples, without the need for centrifugation steps,

Elimination of potential inhibitors of amplification,

Increased ability to test a variety of clinical samples, including urine and blood,

Capture of multiple targets by using capture probes that hybridize to one or more specific nucleic acid sequences, and

Enhanced specificity through selective capture of target and removal of contaminants that may produce a false positive signal.

Transcription-Mediated Amplification. The goal of amplification technologies is to produce millions of copies of the target nucleic acid sequences that are present in samples in small numbers, which can then be detected using DNA probes. Amplification technologies can yield results in only a few hours versus the several days or weeks required for traditional culture methods.

Many amplification-based NAT assays for routine clinical laboratory use a technology known as Polymerase Chain Reaction, or PCR, to amplify DNA. With additional steps, PCR also can be used to amplify RNA. Since most organisms contain only one or two copies of DNA, there are fewer target molecules to initiate amplification when DNA targets are used, and sometimes amplification does not begin at all. In such cases, assays using PCR can fail to produce results. PCR also uses repeated heating and cooling steps requiring complex and expensive thermocyclers. Because PCR produces large amounts of DNA, which, unlike RNA is a stable molecule, there is an increased risk of cross-contamination from one PCR assay to another, potentially leading to a high number of false positive results.

Our patented TMA technology is designed to overcome problems faced by other target amplification methods such as PCR. TMA is a transcription-based amplification system that uses two different enzymes to drive the process. The first enzyme is a reverse transcriptase that creates a double-stranded DNA copy from an RNA or DNA template. The second enzyme, an RNA polymerase, makes thousands of copies of the complementary RNA sequence, known as the RNA amplicon, from the double-stranded DNA template. Each RNA amplicon serves as a new target for the reverse transcriptase and the process repeats automatically, resulting in an exponential amplification of the original target that can produce over a billion copies of amplicon in less than 30 minutes.

TMA offers the following benefits:

The TMA process takes place in one tube at one temperature without the need of thermocyclers required by PCR. All reagents are added to the tube and nothing is removed. This makes the test simpler to use and suitable for automation, and it minimizes the possibility of carry-over contamination and false positive test results;

The RNA nucleic acid that is synthesized in the TMA reaction, or amplicon, is much more unstable when outside the reaction tube than the DNA that is produced in the PCR method. This instablility of TMA amplicon in the general laboratory environment reduces the possibility of carry-over contamination;

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TMA is able to amplify RNA and DNA targets, whereas PCR requires additional reagents and steps to amplify RNA; and

TMA can be used in end-point chemiluminescent as well as real-time qualitative and quantitative fluorescent assays.

Chemiluminescent Technologies and Hybridization Protection Assay. Our current DNA products use chemiluminescent acridinium ester, or AE molecules, to generate light as a label for detection. When AE-labeled DNA probes are mixed with chemical activators, a light signal is produced. Many DNA probe assays and immunoassays use enzyme or radioisotope labels. Assays that use enzyme-labeled DNA probes are complex and can be inhibited by contaminants present in the sample. Radioisotopes offer a strong signal but are difficult to handle, difficult to dispose of and dangerous because they give off harmful radiation.

We have simplified testing, further increased test sensitivity and specificity, and increased convenience with our patented Hybridization Protection Assay, or HPA, technology. With HPA, we introduced the first NAT assay that did not require the cumbersome wash steps needed with conventional probe tests and immunoassays. In the HPA process, the AE molecule is protected within the double-stranded helix that is formed when the probe binds to its specific target. Prior to activating the AE molecule, known as lighting off, a chemical is added that destroys the AE molecule on any unhybridized probes, leaving the label on the hybridized probes largely unaffected. When the light off reagent is added to the specimen, only the label attached to the hybridized probe produces a signal indicating the target organism s DNA or RNA is present. All of these steps occur in a single container and without any wash steps.

Our Dual Kinetic Assay, or DKA, technology uses two types of AE molecules one that flashes and another one that glows. By using DKA, we have created NAT assays that can detect two separate targets simultaneously.

Fluorescent Real-Time Detection Technology. In addition to HPA chemiluminescent detection assays, we have developed a series of real-time fluorescent assay systems. These assays couple TMA, or versions of TMA amplification, with fluorescent probe detection that give increased fluorescent outputs with increasing amounts of amplified target nucleic acid. In these assay formats, amplification and detection take place simultaneously. Consequently, the total time to get a result can be reduced significantly. We have several types of probes for these assays, including probes that we have patented and probes that we have licensed from third parties. We expect that our first products to utilize this format will be in the industrial testing market.

APTIMA Technology. We have combined target capture, TMA and DKA together into an integrated family of technologies known as APTIMA. APTIMA assays are highly refined amplification assays, simplifying sample handling, minimizing contamination and allowing for the simultaneous detection of two analytes in one tube. APTIMA assays offer modern clinical laboratories the significant advantage of carrying out all steps of the assay in a single tube. APTIMA thereby increases assay performance, reduces laboratory costs and improves laboratory efficiency. APTIMA technology combined with automation such as the TIGRIS instrument supports true walk-away automation, allowing hundreds of specimens to be tested by an individual technician in a single run.

Our Products

We have applied our core technologies to develop multiple product lines, all of which utilize our expertise in NAT probes, sample collection and processing. We categorize our products into clinical diagnostic products and blood screening products.

Clinical Diagnostic Products.

Within our clinical diagnostic product group, we have developed products for the detection of non-viral and viral microorganisms.

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Clinical Diagnostic Products for the Detection of Non-Viral Microorganisms. We have developed FDA-approved amplified and non-amplified NAT assays that detect non-viral microorganisms primarily for use in clinical diagnostics. We have established a market-leading position in non-amplified NAT assays, particularly with respect to assays for the detection of chlamydia and gonorrhea, and we have obtained FDA approval for an amplified STD test to compete in that market segment. Our principal products for the detection of non-viral microorganisms include our non-amplified AccuProbe and non-amplified PACE family of products and our amplified Mycobacterium Tuberculosis Direct Test and amplified APTIMA Combo 2 product, as set forth below.

Clinical Diagnostic Products for the Detection of Non-Viral Microorganisms

Product Line	Principal Technologies	Target Microorganism	FDA Clearance/Approval	Commercial Distribution
AccuProbe Culture Identification	Non-amplified detection of organisms from culture isolates by using rRNA as the target and Hybridization Protection Assay	*Blastomyces dermatitidis*	September 1990	Gen-Probe North America bioMérieux Rebio Gen and other distributors Rest of World
		Campylobacter	November 1989	
		Coccidioides immitis	October 1990	
		Enterococcus	November 1989	
		Histoplasma capsulatum	February 1990	
		Haemophilus influenzae	March 1990	
		Group B Streptococcus	November 1989	
		Group A Streptococcus	November 1990	
		Mycobacterium avium Complex	May 1990	
		Mycobacterium avium	August 1990	
		Mycobacterium gordonae	April 1990	
		Mycobacterium intracellulare	August 1990	
		Mycobacterium kansasii	November 1990	
		Mycobacterium tuberculosis	April 1990	
		Neisseria gonorrhoeae	November 1989	
		Streptococcus pneumoniae	August 1990	
		Staphylococcus aureus	August 1990	
		Listeria monocytogenes	June 1990	
GASDirect	Non-amplified detection of rRNA from a swab sample by Hybridization Protection Assay	Group A Streptococcus	March 1994	Gen-Probe North America bioMérieux, Rebio Gen and other distributors Rest of World
PACE Product Family	Non-amplified detection of rRNA from patient sample by Hybridization Protection Assay	*Chlamydia trachomatis* and *Neisseria gonorrhoeae*, including combined detection	PACE December 1987 PACE 2 April 1992 PACE 2C	Gen-Probe North America bioMérieux,

			October 1994	Rebio Gen and other distributors Rest of World
Mycobacterium Tuberculosis Direct Test (or MTD)	Transcription-Mediated Amplification of rRNA in patient sample and detection by Hybridization Protection Assay	*Mycobacterium tuberculosis*	December 1995	Gen-Probe North America bioMérieux, Rebio Gen and other distributors Rest of World

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Product Line	Principal Technologies	Target Microorganism	FDA Clearance/Approval	Commercial Distribution
APTIMA Combo 2	Target Capture, Transcription-Mediated Amplification of rRNA and detection by Dual Kinetic Assay	*Chlamydia trachomatis* and *Neisseria gonorrhoeae* in swab specimens and urine samples from symptomatic and asymptomatic males and females	May 2001	Gen-Probe North America Europe Rebio Gen Japan
APTIMA CT APTIMA GC	Target Capture, Transcription-Mediated Amplification of rRNA and detection by Dual Kinetic Assay	*Chlamydia trachomatis* and *Neisseria gonorrhoeae*	December 2004 March 2005	Gen-Probe U.S.
APTIMA Trichomonas ASR	Target Capture, Transcription- Mediated Amplification of rRNA and detection by Dual Kinetic Assay	*Trichomonas vaginalis*	Not required	Gen-Probe U.S.

AccuProbe Products. Our AccuProbe Culture Identification products are powerful tools for the identification of mycobacterial, fungal and bacterial pathogens, with sensitivities and specificities approaching 100% in most cases. These products allow for the detection of target organisms from primary cultures, eliminating the additional labor of purifying secondary cultures. All AccuProbe Culture Identification assays are based on our HPA technology. All of our AccuProbe Culture Identification tests follow a standard format, use common reagents and do not require highly trained technical personnel. Results are obtained utilizing our luminometers, which are easy to use and offer precise readings. In addition, the convenient packaging provides extended stability and shelf life. As part of our AccuProbe Culture Identification product line, we also have developed a procedure to detect Group B Streptococcus, or GBS, from broth culture. The assay demonstrates near 100% sensitivity and specificity when testing broth samples after 24 hours of incubation. Our products address the market need for a more rapid, direct test procedure for GBS that can be used to effectively screen women during pregnancy and to provide prompt results when testing is performed just before delivery.

Group A Streptococcus Direct. The Group A Streptococcus Direct Test, or GASDirect assay, is a rapid NAT assay for the direct detection of *Streptococcus pyogenes* in one hour from a throat swab. Sensitivity and specificity are equivalent to culture methods taking 72 hours to complete and are higher than the rapid membrane antigen tests often used in physician offices. The test provides fast and accurate results, eliminates subjective interpretation by the laboratory technician, and aids physicians in making more informed treatment decisions. The product s ease of use enables efficient batch testing. An automatic pipetting option offers greater workflow economies and laboratory productivity.

PACE Product Family. Our NAT assays have proven to be more sensitive and specific than traditional enzyme immunoassay methods. Our PACE 2C was the first advanced NAT product to offer the convenience of testing for both chlamydia infections and gonorrhea from a single patient specimen. This feature eliminates the need to collect

separate specimens and the need to transport the specimens under different conditions. The PACE 2C continues to meet the needs of today s clinical laboratories that prefer a cost-effective, non-amplified NAT assay for routine screening for chlamydia infections and gonorrhea. Other products in the PACE 2 product line include individual tests to separately detect and confirm both chlamydia infections and gonorrhea. The PACE product family also includes the PACE Specimen Collection kits for endocervical and urethral swab specimens. Sales of our PACE family of assays accounted for 16% of our total revenues in 2005, 20% of our total revenues in 2004 and 29% of our total revenues in 2003. The decrease in the percentage of total revenues represented by our PACE family of assays is attributable to two factors. First, our total revenues

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are increasing primarily due to growth in our blood-screening segment, which lowers the overall contribution of the clinical diagnostic revenues as a percentage of total revenues. Second, we are actively converting our PACE 2C customers to our amplified APTIMA Combo 2 product line which, while partially decreasing PACE family revenues, ultimately contributes to total clinical diagnostic product sales growth.

Mycobacterium Tuberculosis Direct Test. Amplification is particularly important when detecting pathogens present at low levels, as is often the case with tuberculosis. Culture tests for TB can take six to eight weeks for a preliminary result, often resulting in a patient not receiving appropriate treatment on a timely basis or receiving unnecessary treatment. Our amplified Mycobacterium Tuberculosis Direct, or MTD, test has sensitivity similar to a culture test but can detect the TB pathogen within a few hours. The test is performed directly on a patient sample, and can be used to quickly differentiate between TB and other mycobacteria, resulting in reduced isolation time and treatment of an infected patient. Our MTD assay was the first amplified NAT assay for obtaining same day results from sputum samples.

APTIMA Combo 2. To meet market demand for amplified STD assays, we developed our APTIMA Combo 2 assay, which received FDA approval in May 2001 and was launched commercially in August 2001. Acceptance of first generation amplified tests was adversely affected by the complexity of the methodology and the lack of a format suitable for use in the average laboratory. APTIMA Combo 2, which uses second generation amplification technologies, allows us to overcome these barriers. The test offers superior performance and ease of use, including its use of a penetrable cap that eliminates the need to uncap samples prior to testing and a sample transport medium that preserves the integrity of the sample for several weeks at room temperature.

We believe the assay is ideally suited to test specimens from both symptomatic and asymptomatic individuals. Symptomatic individuals typically have large amounts of the microorganism present at the infection site, while patients who are asymptomatic typically have much lower levels of the microorganism present at the infection site. APTIMA Combo 2 has the sensitivity and specificity to detect chlamydia infections and gonorrhea from both symptomatic and asymptomatic individuals.

In addition to amplification technology, our APTIMA Combo 2 assay utilizes the latest versions of our core technologies, including target capture, HPA and DKA. APTIMA Combo 2 will qualitatively detect and differentiate rRNA from *Chlamydia trachomatis* and *Neisseria gonorrhoeae* bacteria. This continues the one test, two results advantage we first provided with our PACE 2C non-amplified assay for chlamydia infections and gonorrhea. We believe we are in a unique position to provide both amplified and non-amplified assays for these infections. This allows us to compete effectively in the STD testing market and to provide the appropriate NAT solution to meet the needs of many different customers.

Our APTIMA Combo 2 assay is the first clinical diagnostic assay approved for use on the fully automated TIGRIS instrument. Our APTIMA Combo 2 assay is also performed on our semi-automated DTS instruments. In January 2004, we received FDA approval for the APTIMA Vaginal Swab Specimen Collection Kit, the first kit that enables patients to self-collect vaginal swab specimens to be tested for *Chlamydia trachomatis* and *Neisseria gonorrhoeae* using the APTIMA Combo 2 assay.

In August 2005, the FDA granted marketing clearance to use the APTIMA Combo 2 assay to test for *Chlamydia trachomatis* and *Neisseria gonorrhoeae* from liquid Pap specimens collected and processed with Cytyc Corporation s ThinPrep 2000 system. This new use provides physicians the convenience of intercepting Chlamydia infections and gonorrhea from the same sample collected for the ThinPrep Pap Test. The Pap test remains the most widely used screening test in the United States for the early detection of cervical cancer. Approximately 50 million Pap tests are performed annually in the United States, 80% of which are liquid-based. We anticipate filing for regulatory clearance in the United States of a similar application from TriPath s liquid Pap transport media in 2006.

APTIMA CT, APTIMA GC and APTIMA Trichomoniasis ASR. To provide our customers with greater flexibility for their STD testing needs, we also have developed individual APTIMA assays to separately detect the presence of *Chlamydia trachomatis* and *Neisseria gonorrhoeae*, which received FDA approval in December 2004 and March 2005, respectively. We also have developed ASRs to detect the parasite

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Trichomonas vaginalis that causes the sexually transmitted disease trichomoniasis. Trichomoniasis is one of the most common sexually transmitted diseases that mainly affects sexually active women. It is estimated by the CDC that 7.4 million new cases occur annually in the United States. ASRs comprise a category of in vitro diagnostic reagents to bridge the gap between research and assays that have received FDA approval. The FDA has created a series of regulations governing these reagents. ASRs use a collection of specific reagents that, when combined with general purpose reagents, give clinical diagnostic testing laboratories the ability to build diagnostic tests often referred to as home-brew tests. ASRs allow diagnostic companies to deliver reagents to the market rapidly, as most ASRs are exempt from FDA submissions.

Clinical Diagnostic Products for the Detection of Viral Microorganisms. In 1996, we were selected by the National Heart, Lung and Blood Institute of the National Institutes of Health, or NIH, to develop reagents and instrumentation for the blood donor screening market using our core technologies. Our work under the NIH contract also launched us into development of products for detection of viral microorganisms in the clinical diagnostic market. We produce qualitative diagnostic tests that can determine whether the virus is present, and quantitative tests that can determine the amount of the virus. These viral diagnostic assays include a qualitative HCV test and an ASR for quantitative HCV testing, as set forth below, and currently are run on our semi-automated instruments incorporating components of our DTS instrument.

Clinical Diagnostic Products for the Detection of Viral Microorganisms

Product Line	Principal Technologies	Target Microorganism	FDA Clearance/Approval	Commercial Distribution
Qualitative HCV Assay	Target Capture, Transcription-Mediated Amplification of viral RNA, detection by Dual Kinetic Assay	HCV	November 2002	Bayer Worldwide
ASR for Quantitative HCV Testing	Target Capture, Transcription-Mediated Amplification of viral RNA, detection by Hybridization Protection Assay	HCV	Not required	Bayer U.S.

Qualitative HCV Assay. We developed an amplified TMA assay for the qualitative detection of HCV based on the same technology used in our FDA-approved Procleix HIV-1/ HCV assay for screening donated blood. In collaboration with Bayer Corporation, we completed clinical trials in the United States for this assay in February 2002, and in November 2002, we received pre-market approval from the FDA. Bayer currently distributes this assay under the trademark VERSANT in the United States and other international markets under our collaboration agreement.

ASR for Quantitative HCV Testing. We also have developed, through our collaboration with Bayer, an ASR to quantitatively determine the amount of HCV present in a sample. This ASR currently is provided by Bayer to Quest Diagnostics Incorporated, a leading national diagnostics company.

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Blood Screening Products.

In 1996, the National Heart, Lung and Blood Institute of the NIH selected us to develop reagents and instrumentation for the blood donor screening market based on our core technologies. We completed our development of the NAT assays for HIV-1 and HCV for blood screening contemplated by the NIH contract in February 2002 incorporating our core technologies of target capture, TMA and DKA. The principal blood screening products that we have developed are set forth below.

Blood Screening Products

Product Line	Principal Technologies	Target Microorganism(s)	FDA Clearance/Approval	Commercial Distribution
Procleix HIV-1/ HCV Assay	Target Capture, Transcription- Mediated Amplification of viral RNAs, detection by Dual Kinetic Assay	HIV-1 and HCV in donated blood	February 2002	Chiron Worldwide
Procleix WNV Assay	Target Capture, Transcription- Mediated Amplification of viral RNAs, detection by Dual Kinetic Assay	WNV in donated blood	December 2005	Chiron U.S.
Procleix Ultrio Assay	Target Capture, Transcription- Mediated Amplification of viral RNAs, detection by Dual Kinetic Assay	HIV-1, HCV and HBV in donated blood	Not approved	Chiron Worldwide (except U.S.)

In 1998, in collaboration with Chiron, we were selected by The American Red Cross to provide it with an HIV-1/ HCV assay for testing pooled blood samples under an IND filed with the FDA. The Red Cross is the largest supplier of blood, plasma and tissue products in the United States. The Red Cross provides almost half of the nation s entire blood supply through its 36 region national network. The Gen-Probe/ Chiron collaboration subsequently entered into similar arrangements with America s Blood Centers and American Independent Blood Centers. As a result of these and other implementations, we estimate that our Procleix HIV-1/ HCV assay is currently utilized to screen over 80% of the United States donated blood supply. The Procleix HIV-1/ HCV assays supplied under the IND were delivered on a cost recovery basis.

The FDA approved our BLA for the Procleix HIV-1/ HCV assay in February 2002. As a result of FDA approval, Chiron began in the second quarter of 2002 to sell the assay at commercial prices to United States customers, which resulted in our recognizing increased revenues. The Procleix HIV-1/ HCV assay has received approval in the United States, some European countries, and in Asia. Regulations adopted by the European Union, or EU, required all imported in vitro diagnostic products, including our existing blood screening assays, to be registered and receive CE mark approval by December 7, 2003 or before further distribution after that date. Products already in the EU supply chain on that date were permitted to remain in distribution for two additional years. We received CE mark approval for our initial Procleix HIV-1/ HCV blood screening assay in February 2003, for the Procleix Ultrio assay in January 2004, and for the TIGRIS instrument, used in conjunction with the Procleix Ultrio assay, in December 2004.

As noted above, most blood collection centers currently screen donated blood by taking samples from separate units and then conducting a probe-based test on the pooled samples. The Procleix assay is performed on the eSAS instrument system, which provides sufficient throughput for screening pooled samples of donated blood. However, we believe that the FDA will ultimately require testing of each unit of blood individually. Because of the unit volume of donated blood, testing all units individually is currently impractical without fully automated instrumentation. Accordingly, we have invested in the development of the TIGRIS instrument, which we believe will provide the automation necessary to facilitate individual donor testing.

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In collaboration with Chiron, we have developed the Procleix Ultrio assay for the simultaneous detection of HIV-1, HCV and HBV, which we believe will further drive demand for our blood screening products. The test is distributed and marketed by Chiron. The Procleix Ultrio assay is designed to detect the presence of all known HIV-1 groups and subtypes and HCV and HBV genotypes in human plasma during the very early stages of infection, when those agents are present but cannot be detected by immunodiagnostic tests. The HBV component of the assay has the potential to reduce the window period between infection and detection of HBV by up to 42% from the window period associated with new generation surface antigen tests. The Procleix Ultrio assay for use on our semi-automated instrument for export received its CE mark in January 2004. In December 2004, the TIGRIS instrument received a CE mark for use with the previously CE marked Procleix Ultrio assay enabling us to begin commercialization of the Procleix Ultrio assay for use on the TIGRIS instrument in the European Economic Area, as well as in other parts of the world that accept the CE mark. During the third quarter of 2004, we submitted a BLA to the FDA to permit commercial sales of the Procleix Ultrio assay in the United States. We intend to seek approval in the United States to run the test on both eSAS and on the fully-automated TIGRIS instrument.

In October 2005, the FDA notified us that it considers our TIGRIS instrument for blood screening not substantially equivalent to our already cleared eSAS for screening donated human blood with the Procleix Ultrio assay. The FDA made this determination in response to our 510(k) application for the TIGRIS instrument for blood screening. Also in October 2005, we received a complete review letter from the FDA setting forth questions regarding our BLA for the Procleix Ultrio assay itself. We anticipate submitting a BLA amendment for the Procleix Ultrio assay for use on eSAS, responding to the FDA s questions, by the end of the first quarter of 2006. We anticipate submitting a new 510(k) application for the TIGRIS instrument for use with the Procleix Ultrio assay following clearance of the TIGRIS instrument for use with the WNV assay. We anticipate submitting a (post-approval) BLA supplement for the Procleix Ultrio assay, for use on the TIGRIS instrument, following approval of the BLA for the Procleix Ultrio assay on eSAS. There can be no assurance that the Procleix Ultrio assay will receive regulatory approval by the FDA or that the TIGRIS instrument will receive FDA clearance for use with the WNV or Procleix Ultrio assays.

In June 2003, we announced that our WNV assay was available for use by United States blood collection centers under an IND application to begin clinical testing of the virus in freshly donated human blood. We filed a BLA for the WNV assay with the FDA in January 2005. The development of the WNV assay was partially funded by the National Heart, Lung and Blood Institute of the NIH. As of December 2005, blood collection centers in the United States had used the WNV assay to screen more than 29 million units of donated blood under the IND application. This testing has resulted in the interception of approximately 1,500 WNV-infected blood donations. On December 1, 2005, the FDA granted marketing approval for our WNV assay on eSAS to screen donated human blood. The 510(k) clearance of eSAS for use with the WNV assay was granted prior to the assay s approval. We intend to submit for 510(k) clearance of the TIGRIS instrument for use with the WNV assay in the first part of 2006. We plan to submit a (post-approval) supplement to our WNV assay BLA, adding the TIGRIS instrument, at approximately the same time.

Emerging Diagnostic Applications

We entered into a license and collaboration agreement with DiagnoCure to apply our NAT technology in the detection of a new, highly specific genetic marker for prostate cancer. In addition, we have licensed multiple potential markers for genitourinary and other cancers from Corixa, including a gene called AMACR that we believe is a promising marker for a molecular-based prostate cancer diagnostic test. We have also licensed innovative cell capture technology from AdnaGen that may allow for improved isolation of prostate cancer cells. In December 2005, we entered into a license agreement with the Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc. for access to additional markers that we believe could help us to further increase the accuracy of our tests for prostate cancer.

In the industrial market, in July 2005, we entered into a collaboration agreement with GEI to develop, manufacture and commercialize NAT products designed to detect the unique genetic sequences of microorganisms for GEI s exclusive use or sale in selected water testing applications. In August 2005, we entered into a collaboration agreement with Millipore to develop, manufacture and commercialize NAT products for rapid

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microbiological and viral monitoring for Millipore s exclusive use or sale in process monitoring in the biotechnology and pharmaceutical manufacturing industries. We are currently evaluating additional product opportunities in other areas of the industrial testing market.

Instrumentation

We have developed and continue to develop instrumentation and software that are designed specifically for performing our NAT assays. We also provide technical support and instrument service to maintain these systems in the field. Historically, we have provided our instrumentation to laboratories and hospitals without requiring them to purchase the equipment or enter into an equipment lease. Instead, we recover the cost of providing the instrumentation in the amounts we charge for our diagnostic assays. We have implemented multi-year sales contracts that have an equipment factor set forth in them. By placing our proprietary instrumentation in laboratories and hospitals, we can establish a platform for future sales of our assays. We record the revenue associated with the delivery of our proprietary integrated instrument platforms to customers in product sales. The costs associated with the instrument are charged to cost of sales on a straight-line basis over the estimated life of the instrument, which ranges from three to five years. The costs to maintain these instruments in the field are charged to cost of product sales as incurred. For instruments that will be used for blood screening or in connection with our clinical diagnostic collaboration with Bayer, we sell the instrumentation to Chiron and Bayer, and they are responsible for the placement, maintenance and repair of the units with their laboratory and hospital customers.

Luminometers

We first introduced the LEADER series of luminometers, designed in conjunction with MGM Instruments, Inc., for use with our PACE and AccuProbe products and, more recently, the APTIMA product line. Utilizing advanced chemiluminescent detection, our luminometers provide high sensitivity, speed, accuracy and ease-of-use. Currently, there is an installed base of over 2,000 of our luminometers worldwide. The LEADER series can accommodate the throughput needs of low-volume testing laboratories. We have no firm, long-term commitments from MGM Instruments to supply products to us for any specific period, or in any specific quantity, except as may be provided in a particular purchase order. No FDA or foreign governmental approval is required to sell our current LEADER series of luminometers in the clinical diagnostic market.

DTS 400, 800 and 1600 Instruments

Laboratories need nucleic acid testing solutions that are accurate, efficient and economical. To meet this demand, we have developed the family of DTS instruments. The DTS family of instruments uses direct tube sampling (DTS) technology consisting of an exclusive penetrable cap on the sample collection tube to minimize contamination and achieve safer, more convenient, sample removal. DTS simplifies sample transport, minimizes handling and greatly reduces laboratory cross-contamination. These instruments include the DTS 400, DTS 800 and DTS 1600. This is a full line of automated solutions for low, medium and high-volume laboratories to be used with our latest generation of NAT assays, including the APTIMA Combo 2 assay. The instrument platforms can also be adapted to perform the PACE family of assays, GASDirect Test, and AccuProbe Group B Strep assay.

The DTS 400 instruments are fully-integrated modular instruments that include a magnetic particle separation and washing system (target capture system), temperature controlled incubators, a luminometer, software, on board bar code readers and computers. The DTS 1600 instruments add the additional capabilities of an automated pipetting station and can process up to 800 specimens per day, resulting in 1,600 chlamydia and gonorrhea assay results per day for the APTIMA Combo 2 assay.

Chiron markets a version of the DTS 1600 instruments, also known as eSAS, for use in blood screening under the Procleix trademark. The version of the DTS instruments that Chiron markets has received FDA approval and foreign governmental approval in the countries where our blood screening products are sold.

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Bayer markets systems comprised of components of the DTS instruments for HCV clinical diagnostic assays. The systems that Bayer markets do not require FDA or foreign governmental approval.

TIGRIS Instrument System

We have developed the TIGRIS instrument system, or TIGRIS instrument, which we believe is the first high-throughput instrument to automate NAT testing, for use in both the clinical diagnostic and blood screening markets. The TIGRIS instrument integrates and automates all of the steps associated with our latest amplified NAT assays, including sample preparation, sample processing, amplification and detection. It has the ability to process approximately 500 samples in an eight-hour shift and up to 1,000 samples in approximately 13 hours, and two TIGRIS instruments can be operated under the supervision of a single lab technician.

The TIGRIS instrument is expected to reduce the time, labor costs, risk of contamination and complexity associated with performing NAT assays and blood screening. As demonstrated by the clinical testing of the Procleix WNV TIGRIS assay under an IND, the throughput of the TIGRIS instrument is sufficient to allow high volume testing of individual blood donations, rather than pooled donor samples. In addition, we intend to develop additional NAT assays that can be performed on the TIGRIS instrument. The TIGRIS instrument is being utilized in numerous clinical diagnostic laboratories and blood banks. We have capitalized $25.1 million of third-party costs that we incurred to develop TIGRIS software after establishing technological feasibility. In 2004, we began to amortize the capitalized software costs associated with the TIGRIS instrument.

Clinical trials for clinical diagnostic testing on the TIGRIS instrument using our APTIMA Combo 2 assay were completed in June 2003 and a 510(k) premarket notification was filed with the FDA in July 2003. In December 2003, we received approval from the FDA for testing for certain STDs on the TIGRIS instrument.

In December 2003, we filed an amended IND with the FDA to initiate clinical trials of the Procleix Ultrio blood screening assay on the TIGRIS instrument. We initiated clinical trials of our Procleix Ultrio assay on the TIGRIS instrument for a blood screening application in January 2004. We submitted a BLA for the Procleix Ultrio assay to the FDA during the third quarter of 2004. We intend to seek approval in the United States to run the test on both eSAS and on the fully automated TIGRIS instrument. The Procleix Ultrio assay received its CE mark in January 2004 for use on eSAS and in December 2004 we received a CE mark for the TIGRIS instrument for use with the Procleix Ultrio assay, enabling us to begin commercialization of the Procleix TIGRIS system in the European Economic Area, as well as in other parts of the world that accept the CE mark. In October 2005, the FDA notified us that it considers our TIGRIS instrument for blood screening not substantially equivalent to our already cleared eSAS for screening donated human blood with the Procleix Ultrio assay. The FDA made this determination in response to our 510(k) application for the TIGRIS instrument for blood screening. We anticipate submitting a new 510(k) application for the TIGRIS instrument for use with the Procleix Ultrio assay following clearance of the TIGRIS instrument for use with the WNV assay. There can be no assurance that the TIGRIS instrument will receive FDA clearance for use with the WNV or Procleix Ultrio assays.

Marketing and Sales

We market our products for the clinical diagnostics market to laboratories in the United States and Canada through our direct sales force. We also market our APTIMA products in certain European countries through our direct sales force. As of December 31, 2005, our direct sales force consisted of a staff of approximately 41 sales representatives. We also support our sales efforts through a staff of 16 field technical representatives. Our sales representatives have an average of approximately 20 years of overall sales experience, with an average of approximately eight years focused on sales of NAT products. Sales representatives principally focus on large accounts including large reference laboratories, public health laboratories and hospitals throughout North America and generally do not focus on physicians at this time. We educate our sales representatives on the technical, clinical and economic merits of our products. We use sales meetings, technical on-line sales training and in-the-field training to ensure our sales representatives are

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properly informed about all areas of our product lines and selling processes. Our blood screening products are marketed and distributed by Chiron.

Marketing Strategy

The focus of our marketing strategy is to solidify awareness of the superiority of our technology, illustrate the cost effectiveness of this technology and continue to differentiate our products from those of our competitors. We intend to continue targeting our marketing efforts to various levels of laboratory and hospital management through research publications, print advertisements, conferences and the Internet. We attend various national and regional industry conferences throughout the year. Our web site is used for educating existing and potential customers about our assays and contains our entire directory of products, on-line technical materials and links to related medical sites.

Sales Strategy

We concentrate our selling efforts on the management teams of laboratories and hospitals. Our sales representatives are able to recommend the appropriate business solution to meet the needs of our customers by presenting multiple NAT technology and instrumentation options. Sales representatives are trained to find new product opportunities, offer diagnostic solutions to address unmet customer needs, and provide comprehensive after-sale product support. In addition, our field technical support group provides training and ongoing technical support for all of our NAT products.

Distribution

We have entered into an agreement with bioMérieux for distribution of certain of our microbial non-viral diagnostic products in Europe and various countries in Asia (other than Japan), Australia, South America and Mexico. We have entered into an agreement for distribution of our microbial non-viral diagnostic products in Japan with Chugai Diagnostics Science, which was acquired by Fujirebio in 2002. Fujirebio renamed the company Rebio Gen, Inc. In other countries, we utilize independent distributors with experience and expertise in clinical diagnostic products.

The viral diagnostic products we manufacture under our collaboration agreement with Bayer and the blood screening products we manufacture under our collaboration agreement with Chiron are marketed and distributed by those companies. We are currently involved in arbitration proceedings with Bayer regarding its distribution rights under the collaboration agreement.

Customers

The primary customers for our clinical diagnostic products include large reference laboratories, public health laboratories and hospitals. Our blood screening collaboration with Chiron accounted for 52% of our total revenues in 2005 and 47% of our total revenues in 2004. Our blood screening collaboration with Chiron is largely dependent on two large customers in the United States, The American Red Cross and America s Blood Centers, but we did not receive any revenues directly from these entities. Chiron was our only customer that accounted for greater than 10% of our total revenues in 2005. In addition, Quest Diagnostics, Laboratory Corporation of America Holdings and various state and city public health agencies accounted for an aggregate of 20% of our total revenues in each of 2005 and 2004. Although state and city public health agencies are legally independent of each other, we believe they tend to act similarly with respect to their purchasing decisions.

Corporate Collaborations and Strategic Arrangements

Agreement with Chiron Corporation

In June 1998, we entered into a strategic alliance with Chiron to develop and market NAT-based products for the blood screening and clinical diagnostic markets. Chiron subsequently assigned the clinical diagnostics portion of the agreement to Bayer. The Gen-Probe/ Chiron alliance initially developed and is

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manufacturing and marketing the combination HIV-1/ HCV assay for qualitative screening of blood and blood products under the Procleix name. Additional blood screening assays, such as the Procleix Ultrio assay and the WNV assay, have been developed through the collaboration and are discussed elsewhere in this document. In the event that any third-party technology is needed to continue development under the collaboration agreement, costs for obtaining such third-party technology will be allocated between the parties.

Under the agreement, our share of revenues from the initial Procleix HIV-1/ HCV assay through 2003 ranged from 43% to 47.5% after deduction of appropriate expenses. Effective January 1, 2004, we amended the agreement to permanently fix our share at 45.75% of net revenues for assays that include a test for HCV after deduction of appropriate expenses. For commercial assays that do not test for HCV, such as the WNV assay, the agreement remains unchanged, with each party retaining 50% of the net revenues after deduction of appropriate expenses. The amendment also eliminates the possibility of Chiron appointing a third party distributor in the United States to sell these products.

The collaboration agreement has an initial term of 10 years from the first commercial sale of a blood screening assay following FDA approval, which occurred in the first quarter of 2002. The agreement may be extended by the development of new products under the agreement, so that it will expire upon the later of the end of the initial term or five years after the first commercial sale of the last new product developed during the initial term. The agreement can be terminated by a party earlier if the other party materially breaches the agreement and does not cure the breach following 90 days notice or if the other party becomes insolvent or declares bankruptcy.

All rights and title to inventions discovered under the collaboration agreement belong to the party who developed the invention, or to both parties, if both parties developed the invention. However, if one party uses confidential information relating to the core technology of the other party to develop an invention that improves on, and whose use would infringe on, the core technology of the other party, then the other party will have the exclusive option to acquire all rights and title to the invention on commercially reasonable terms, except in certain situations where the invention will be jointly owned.

In January 2004, we began United States clinical trials of the Procleix Ultrio assay on the TIGRIS instrument system, triggering a $6.5 million contract milestone payment from Chiron that we recorded during the first quarter of 2004. During January 2004, the Procleix Ultrio assay, running on our semi-automated instrument, received its CE mark, which permitted Chiron to launch the product in the European Economic Area. In December 2004, use of the TIGRIS instrument with the previously CE marked Procleix Ultrio assay received a CE mark enabling the commercialization of the Procleix TIGRIS system in the European Economic Area, as well as in other parts of the world that accept the CE mark.

From inception through December 31, 2005, we recognized a total of $476.5 million in revenue under this collaboration agreement and had recorded $5.0 million in deferred license revenues as of December 31, 2005.

The collaboration agreement provides that Chiron pay us a $10 million milestone upon FDA approval of the Procleix Ultrio assay on the TIGRIS instrument. We believe that this approval is more likely in 2007 than in 2006. There can be no assurance that the Procleix Ultrio assay will receive regulatory approval by the FDA or that the TIGRIS instrument will receive FDA clearance for use with the Procleix Ultrio assay.

On October 30, 2005, Chiron announced that it entered into a merger agreement with Novartis AG. In the event the merger is consummated, Chiron will become a wholly-owned subsidiary of Novartis. We do not know whether the merger will be consummated or, if consummated, what effect, if any, it will have on our relationship with Chiron.

Agreement with Bayer Corporation

In 1998, following the execution of our agreement with Chiron, Chiron assigned the clinical diagnostic portion of the agreement to Bayer. Under the terms of our collaboration with Bayer, we will develop, manufacture and market with Bayer NAT assays for viral targets and cancer markers in the clinical diagnostic market. Pursuant to the collaboration, we and Bayer initially developed and are manufacturing and marketing quantitative ASRs and qualitative assays for HCV. In the event that any third-party technology is needed to

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continue development under our collaboration agreement with Bayer, costs for obtaining such third-party technology will be allocated between the parties. In addition, either party has the right to separately pursue obtaining rights to cancer markers necessary for the development of NAT assays.

Under the terms of this agreement, Bayer agreed to pay us a combination of transfer prices and royalties on product sales. From inception through December 31, 2005, we recognized a total of $12.0 million in revenue under our collaboration agreement with Bayer, including $1.4 million in revenue during 2005.

The collaboration agreement has an initial term of 10 years from the first commercial sale of a clinical diagnostic assay subject to the agreement, which occurred in the second quarter of 2000. The agreement may be extended by the development of new products under the agreement, so that it will expire upon the later of the end of the initial term or five years after the first commercial sale of the last new product developed during the initial term. The agreement can be terminated earlier if a party materially breaches the agreement and does not cure the breach following 90 days notice from the non-breaching party or if a party becomes insolvent or declares bankruptcy.

All rights and title to inventions discovered under the collaboration agreement belong to the party who developed the invention, or to both parties, if both parties developed the invention. However, if one party uses confidential information relating to the core technology of the other party to develop an invention that improves on, and whose use would infringe on, the core technology of the other party, then the other party will have the exclusive option to acquire all rights and title to the invention on commercially reasonable terms, except in certain situations where the invention will be jointly owned.

In November 2002, we initiated an arbitration proceeding against Bayer in connection with our clinical diagnostic collaboration. Under the terms of the collaboration agreement, Bayer acquired the exclusive right to distribute nucleic acid diagnostic tests designed and developed by us for the detection of HIV, hepatitis virus and other specified viruses, subject to specific conditions. Our demand for arbitration stated that Bayer has failed to fulfill the conditions required to maintain exclusive distribution rights. In June 2005, the arbitrator issued an Interim Opinion and Award and determined, among other things, that we are entitled to a co-exclusive right to distribute qualitative Transcription-Mediated Amplification, or TMA, assays to detect HCV and HIV-1 for the remaining term of the agreement. Bayer previously held the exclusive rights to market these products. We will be required to pay running sales royalties to Bayer on sales of the TMA assays for HCV and HIV-1, at rates we believe are generally consistent with rates paid by other licensees of the relevant patents. The arbitrator also determined that the collaboration agreement should be prospectively terminated, as we requested. As a result of a termination of the agreement, we will have the right to develop and market future viral assays that had been previously reserved for Bayer. Bayer will retain co-exclusive rights to distribute two products that it currently markets. The arbitrator s final decision in this matter is subject to a right to appeal to an arbitration appeal panel within JAMS. There can be no assurances as to the final outcome of the arbitration.

National Institutes of Health Contracts

In October 2002, we received a $1.0 million contract extension from the NIH to develop a NAT assay for the detection of the West Nile virus. The NIH allocated an additional $2.5 million to the contract extension in February 2003.

In November 2003, we received $4.3 million of supplemental contract funding from the NIH. This contract extension supported our pursuit of clinical studies and the submission on January 27, 2005 of our BLA for our nucleic acid test for the detection of WNV in donated human blood.

Distribution Agreement with Rebio Gen

In September 1998, we entered into a distribution agreement with Chugai Diagnostics Science Co., Ltd., a subsidiary of our parent corporation at that time, for the distribution of our non-viral diagnostic products in Japan. During 2002, Chugai Pharmaceutical sold Chugai Diagnostics Science Co., Ltd. to Fujirebio Inc., a Japanese life sciences company, which re-named the company Rebio Gen, Inc. From inception through

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December 31, 2005, we recognized $21.4 million in sales revenue under this distribution agreement, including $3.2 million in sales revenue during 2005. The distribution agreement with Rebio Gen, as amended, currently expires by its terms on March 31, 2006. We are currently discussing an extension of the agreement with Rebio Gen. Prior to expiration, this agreement may be terminated by either party upon a material breach of this agreement that is not cured following 60 days written notice, unless the material breach relates to an obligation to make payments under the agreement, in which case a 30 day cure period applies. This agreement may also be terminated if a party becomes insolvent or declares bankruptcy, ceases to be actively engaged in business, or engages in or is charged with unethical or illegal behavior that jeopardizes the reputation and goodwill of either party.

Purchase and Supply Agreement with Roche

In February 2005, we entered into a supply and purchase agreement with F. Hoffman-La Roche Ltd. and its affiliate Roche Molecular Systems, Inc. Under this agreement, Roche agreed to manufacture and supply us with DNA oligonucleotides for HPV. We plan to use these oligonucleotides in molecular diagnostic assays. Pursuant to the agreement, we paid Roche manufacturing access fees of $20.0 million in May 2005 and will pay $10.0 million within 10 days of the occurrence of certain future commercial events, but not later than December 1, 2008. We also agreed to pay Roche transfer fees for the HPV oligonucleotides. The agreement terminates upon the expiration of certain Roche patent rights relevant to the agreement and may be terminated by either party upon a material breach of the agreement by the other party that is not cured following 60 days written notice and in certain other limited circumstances.

Research Agreement with GSK

In June 2005, we entered into a research agreement with SmithKline Beecham Corporation, doing business as GlaxoSmithKline, and SmithKline Beecham (Cork) Ltd., together referred to as GSK. Under the terms of the agreement, we agreed to provide our investigational PCA3 assay to test up to 6,800 clinical samples obtained from patients enrolled in GSK s REDUCE™ (REduction by DUtasteride of prostate Cancer Events) clinical trial, which is designed to determine the efficacy and safety of GSK s drug dutasteride (AVODART®) in reducing the risk of prostate cancer in men at increased risk of this disease. We agreed to reimburse GSK for expenses that GSK incurs for sample collection and related processes during the four-year prospective clinical trial. We also agreed to provide the PCA3 assay without charge and to pay third party clinical laboratory expenses for using the assay to test the samples. The agreement terminates on the earlier of six years from the commencement date or two years after certain clinical data is unblinded. GSK may terminate the agreement upon notice to us and we may terminate the agreement on specific dates provided certain conditions are met. Each party may also terminate the agreement for material breaches and in certain other limited circumstances.

Collaboration Agreement with GEI

In July 2005, we entered into a collaboration agreement with GEI to develop, manufacture and commercialize NAT products designed to detect the unique genetic sequences of microorganisms for GEI s exclusive use or sale in selected water testing applications. Under the terms of the agreement, we will be primarily responsible for assay development and manufacturing, while GEI will manage worldwide commercialization of any products resulting from the collaboration. The agreement terminates on the later of the date that is ten years after the first commercial sale or use of the first assay developed under the agreement and five years after the first commercial sale or use of the last assay launched prior to the ten year period specified above. In addition, either party may terminate the agreement upon a breach of a material provision of the agreement by the other party that is not cured following 90 days written notice and in certain other limited circumstances.

Collaboration Agreement with Millipore

In August 2005, we entered into a collaboration agreement with Millipore to develop, manufacture and commercialize NAT products for rapid microbiological and viral monitoring for Millipore s exclusive use or

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sale in process monitoring in the biotechnology and pharmaceutical manufacturing industries. Under the terms of the agreement, we will be primarily responsible for assay development and manufacturing, while Millipore will manage worldwide commercialization of any products resulting from the collaboration. The agreement terminates upon the expiration of any two-year period during which there has been no development work conducted under the agreement or no first commercial sale of a product developed under the agreement. In addition, either party may terminate the agreement upon a material breach of the agreement by the other party that is not cured following 120 days written notice and in certain other limited circumstances.

Agreements with Molecular Profiling Institute, Inc.

In October 2005, we entered into agreements with Molecular Profiling Institute, Inc. to accelerate market development for our cancer diagnostics. Under the terms of the agreements, Molecular Profiling has agreed to validate, commercialize and undertake market development activities for up to four of our products, starting with our ASRs to detect PCA3, a genetic marker for the detection of prostate cancer. The agreements may be terminated, with required notice, upon a material breach and in certain other limited circumstances. In addition, we purchased $2.5 million of Series B Preferred Stock of Molecular Profiling.

Technology Licenses

Licenses of Our Technology We Have Granted to Other Companies

Agreements with bioMérieux. In May 1997, we entered into collaborative research agreements with bioMérieux Vitek, Inc., which created a worldwide relationship between bioMérieux and us.

In August 2000, we entered into amended agreements with bioMérieux, Inc. that transitioned the relationship from a collaborative arrangement to two royalty-bearing license agreements covering a semi-automated instrument and associated probe assays and an advanced fully-automated instrument and probe assays, both for the diagnosis of infectious diseases and detection of food pathogens. In September 2004, we entered into a termination agreement with bioMérieux, which terminated one of the August 2000 license agreements. Pursuant to the termination agreement, bioMérieux paid us an aggregate of approximately $1.6 million to conclude certain outstanding royalty and other obligations under the terminated license agreement. Further, we paid $1.0 million to bioMérieux to gain access to bioMérieux s intellectual property for detecting genetic mutations that predispose people to blood clotting disorders.

In September 2004, at the same time we entered into the termination agreement, we also entered into non-exclusive licensing agreements with bioMérieux and its affiliates that provide bioMérieux s affiliates options to access our ribosomal RNA technologies for certain uses. We refer to these agreements as the Easy Q agreement and the GeneXpert agreement. Pursuant to the terms of these agreements, bioMérieux s affiliates paid us an aggregate of $250,000 for limited non-exclusive, non-transferable, research licenses, without the right to grant sublicenses except to affiliates, and non-exclusive, non-transferable options for licenses to develop diagnostic products for certain disease targets using our patented ribosomal RNA technologies. The first of these options was exercised by bioMérieux s affiliates payment to us of $4.5 million in January 2005. In December 2005, bioMérieux s affiliates exercised a second option and paid us $2.1 million. We recognized an aggregate of $3.9 million as license revenue in 2005 as a result of these payments. bioMérieux s affiliates may acquire rights to develop products for additional targets, if any, by paying us up to an additional $0.9 million, the exact total amount based on the number of additional targets, if any, selected by bioMérieux s affiliates by the end of 2006. Under each license, we will receive royalties on the net sale of any products bioMérieux and its affiliates develop using our intellectual property. The resulting license agreements terminate upon the expiration of the last to expire patent covered by the agreement. In the event of a change in control with respect to bioMérieux or its affiliates, we have the right to terminate these agreements, and the respective licenses granted to bioMérieux s affiliates thereunder, upon 60 days prior written notice to bioMérieux delivered within six (6) months of the date of the change in control. The respective obligations of bioMérieux s affiliates under the agreements is guaranteed by bioMérieux SA, the parent company of the bioMérieux affiliates that are parties to the agreements. We will record revenue based on the total number of targets eventually selected.

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On February 3, 2006, bioMérieux terminated the second of the two August 2000 license agreements. Upon payment of minimum royalties for 2006 in the amount of $500,000, bioMérieux will not have any further obligations under the terminated license. Termination of the second August 2000 license does not affect the September 2004 licenses.

Through December 31, 2005, we recognized a total of $58.0 million in revenue under the agreements, including $7.7 million during 2005.

License Agreement with Rebio Gen. In July 2001, we entered into a license agreement with Chugai Diagnostics Science Co., Ltd., a subsidiary of our parent corporation at that time. In September 2002, Chugai Diagnostics Science Co., Ltd. was acquired by Fujirebio, which re-named the company Rebio Gen, Inc. The license agreement has an initial term of 10 years, with automatic renewal for consecutive one year terms unless one party gives the other party notice 90 days prior to the end of the current term. Under the terms of this agreement, we granted Chugai Diagnostics Science Co., Ltd. a non-exclusive license for Japan in the field of human clinical diagnostics to various of our proprietary technologies, including TMA and HPA technology. All rights and title to any discovery, invention or improvement made by Rebio Gen as a result of access to our patent rights licensed under the agreement belong solely to Rebio Gen. We received a license fee and a royalty payment for sales made prior to the effective date of the agreement and will receive royalty payments from any products incorporating the licensed technology, including those developed and commercialized by Rebio Gen, until the expiration of our patents incorporated in these products, which is expected to occur in December 2020. From inception through December 31, 2005, we have recognized a total of $3.1 million in revenue under this agreement, including $0.3 million in revenue during 2005. This agreement may be terminated by either party upon breach of the agreement that is not cured following 60 days written notice. We also received rights to distribute outside of Japan any products that may be developed by Rebio Gen under the license.

Non-Exclusive License with Becton Dickinson and Company. In September 1995, we granted Becton Dickinson a non-exclusive worldwide license to make, have made, use, sell and import products that utilize rRNA for the diagnosis of vaginosis and vaginitis in humans. Becton Dickinson paid us an up front license fee and has agreed to pay us royalties for the life of the licensed patents. From inception through December 31, 2005, we have recognized a total of $4.3 million in revenue under this agreement, including $0.9 million in revenue during 2005. Becton Dickinson s obligations to make royalty payments under this agreement terminate when the patents that are the subject of this agreement expire, which is expected to occur in March of 2015. Becton Dickinson can terminate the agreement at any time on 30-days prior written notice.

Cross Licensing Agreements with Tosoh. In December 2003, we entered into agreements with Tosoh Corporation to cross-license intellectual property covering certain NAT technologies. The licenses, which were effective January 1, 2004, cover products in clinical diagnostics and other related fields. Under the agreements, Tosoh received non-exclusive rights to our proprietary TMA and rRNA technologies in exchange for two payments to us totaling $7.0 million in 2004. Additionally, Tosoh will pay us royalties on worldwide sales of any products that employ our technologies licensed by Tosoh. We will gain access, in exchange for royalty payments to Tosoh, to Tosoh s patented TRC amplification and INAF detection technologies for use with our real time TMA. The agreements terminate at various times commencing in July 2010 through the expiration of the last to expire patents subject to the agreements and may be terminated by a party upon material breach of the agreement by the other party that is not cured following 60 days written notice.

Licenses We Have Obtained to Third-Party Technology

Co-Exclusive License from Stanford University. In August 1988, we obtained a license from Stanford University granting us rights under specified patent applications covering nucleic acid amplification methods related to TMA. This license was amended in April 1997. Under the amended license agreement, we are the co-exclusive worldwide licensee of the Stanford amplification technology, with Organon Teknika as the only other permitted Stanford licensee. We paid a license fee and are obligated to make royalty payments to Stanford based on net sales of products incorporating the licensed technology, subject to a minimum annual royalty payment. From inception through December 31, 2005, we incurred a total of $4.3 million in expenses under this agreement, including $1.6 million in expenses during 2005. Our obligation to make royalty

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payments under this agreement terminates when the patents constituting the Stanford amplification technology expire, which is expected to occur in July 2017. This agreement may be terminated by Stanford upon a material breach of the agreement by us that is not cured following 60 days written notice.

Non-Assertion Agreement with Organon Teknika B.V. In February 1997, we entered into a non-assertion agreement with Organon Teknika. Both parties possessed certain rights regarding transcription-based amplification methods. The agreement allows both parties to practice their respective amplification methods with immunity from legal action from the other party for actually or allegedly infringing each other s patent rights. The agreement terminates upon the expiration of the last of the patent rights that are subject to the agreement, which is expected to occur in July 2017. This agreement also may be terminated by Organon Teknika upon a material breach of the agreement by us that is not cured following 90 days written notice. In July 2001, Organon Teknika merged with bioMérieux.

License from University of Wales College of Medicine. Our wholly-owned subsidiary, Molecular Light Technology Limited and its subsidiaries, collectively referred to as MLT, have exclusive rights, with rights to sublicense, under a license from the University of Wales College of Medicine, or UWCM, to patents covering AE chemiluminescence technology. In 1986, prior to our acquisition of MLT, we entered into an agreement with MLT and UWCM pursuant to which we obtained an exclusive sublicense to the technology for use in NAT assays. This technology is an important component of our products and is used to reveal when a probe has bound to its target sequence. We will own all improvements to the chemiluminescence technology that we develop. The agreement terminates upon the expiration of the last of the patent rights that are subject to the agreement, which is expected to occur in August 2007. Subsequent to our acquisition of a majority ownership of MLT in August 2003, through December 31, 2005, we paid royalties to UWCM totaling $4.6 million, including $1.6 million in 2005. The agreement with UWCM may also be terminated by a party upon breach of the agreement that is not cured following a specified notice provision.

Non-Exclusive License from Vysis, Inc. In June 1999, we obtained a non-exclusive license from Vysis granting us rights under certain patents covering methods which combine target capture technology with certain nucleic acid amplification methods. We paid a license fee and became obligated to make royalty payments to Vysis based on sales of products incorporating the licensed technology. The agreement terminates upon the expiration of the last of the patent rights that are subject to the agreement, which is expected to occur in July 2015. In December 2001, Vysis was acquired by Abbott Laboratories, Inc., one of our principal competitors.

In September 2004, following litigation between the parties concerning the scope, validity and enforceability of the licensed patents, we entered into a settlement agreement and an amendment to the non-exclusive license agreement. Under the settlement agreement, we agreed to terminate the litigation and pay Abbott an aggregate of $22.5 million. This aggregate amount included $20.5 million for a fully paid up license to eliminate all of our future royalty obligations under the license, and $2.0 million for a fully paid-up, royalty-free license in additional fields under the licensed patents. The paid-up license now covers current and future products in the field of infectious diseases and all other fields. Chiron reimbursed us $5.5 million of the $20.5 million allocated to the cost of the fully paid-up license for the current field, commensurate with its obligation to reimburse us for a portion of the royalties due on the sale of blood screening products. During the fourth quarter of 2004, we began to amortize our share of the payment to cost of goods sold over the patent s remaining economic life of 135 months.

Non-Exclusive License with the Public Health Research Institute of The City of New York, Inc. In June 1997, we entered into a royalty bearing non-exclusive license with the Public Health Research Institute of The City of New York, or PHRI, to utilize PHRI s fluorescently labeled NAT technology. Under this agreement, we have worldwide rights to develop, use and market kits in the field of human *in vitro* diagnostics and food testing. We paid a license fee and agreed to make milestone payments and annual license fee payments, and to pay royalties on the net sales price of products incorporating the licensed technology, subject to a minimum annual royalty fee and a reduction in the royalties based on the quantity of sales. From inception through December 31, 2005, we incurred a total of $1.9 million in license fees and $0.1 million in milestone payments under this agreement. We anticipate that we will pay up to an additional $0.4 million in milestone payments

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over the remaining term of the agreement. This agreement terminates upon the expiration of the last of the patent rights that are subject to this agreement, which is expected to occur in April 2017. This agreement may be terminated by PHRI upon a material breach of the agreement that is not cured following 30 days written notice, or by us for any reason following 30 days written notice.

Exclusive License with DiagnoCure. In November 2003, we entered into a license and collaboration agreement with DiagnoCure under which we agreed to develop in collaboration with DiagnoCure, and we agreed to market, a test to detect a new gene marker for prostate cancer. The diagnostic test is expected to detect a gene called PCA3 that has been shown by studies to be over expressed in malignant prostate tissue. Under the terms of the agreement, we paid DiagnoCure an upfront fee of $3.0 million, and agreed to pay future fees and contract development payments of up to $7.5 million over the three years following execution of the contract. As of December 31, 2005, approximately $2.0 million remained to be paid to DiagnoCure pursuant to this obligation. We received exclusive worldwide distribution rights under the agreement to any products developed by the parties under the agreement for the diagnosis of prostate cancer, and agreed to pay DiagnoCure royalties on any such products of 8% on cumulative net product sales of up to $50.0 million, and royalties of 16% on cumulative net sales above $50.0 million. The agreement provides that we may lose exclusivity with respect to the licensed PCA3 marker if we fail to diligently develop the collaborative diagnostic test. This agreement expires, on a country-by-country basis, on the expiration of our obligation to pay royalties to DiagnoCure, which obligation remains in effect as long as the licensed products are covered by a valid claim of the licensed patent rights. We may terminate the agreement for any reason following 30 days written notice to DiagnoCure, or following 30 days written notice to DiagnoCure in the event a licensed product fails to produce a certain level of results in any clinical trial.

Exclusive Option Agreement with Qualigen, Inc. In November 2004, we entered into an agreement with Qualigen, Inc. under which we have an exclusive option to develop and commercialize a NAT instrument designed for use at the point of sample collection based on Qualigen s FDA-approved FastPack immunoassay system. If successfully developed, the portable instrument would use our NAT technology to detect, at the point of sample collection, the presence of harmful microorganisms, genetic mutations and other markers of diseases. Under the terms of the agreement, we paid Qualigen $1.0 million for an 18-month option to license, on an exclusive worldwide basis, Qualigen s technology to develop NAT assays for the clinical diagnostics, blood screening and industrial fields. During this period, we are evaluating the feasibility of adapting Qualigen s immunoassay platform to perform NAT using our proprietary technologies. If we exercise this option, we will purchase shares of Qualigen preferred stock convertible into approximately 19.5% of Qualigen s then outstanding fully diluted common shares. The cost of acquiring this equity interest would be approximately $7.0 million. In addition, we may pay Qualigen up to $3.0 million in license fees based on development milestones, as well as royalties on any eventual product sales.

Exclusive License from AdnaGen AG. In December 2004, we entered into a license agreement with AdnaGen AG to license from AdnaGen cell capture technology for use in our molecular diagnostic tests to detect prostate and other cancers. Under the terms of the agreement, we recorded license fees of $1.75 million ($0.75 million in 2006 and $1.0 million in 2004). We also agreed to pay AdnaGen up to three milestone payments totaling an additional $2.25 million based on the occurrence of certain clinical, regulatory and/or commercial events. Further, we agreed to pay AdnaGen royalties on net sales of any products developed by us using AdnaGen s technology. Additionally, we were granted options through June 30, 2006 to obtain exclusive licenses to use AdnaGen s technology in molecular diagnostic tests for kidney, ovarian and cervical cancers. If we exercise any of these options, we will pay AdnaGen $0.3 million for the exclusive license to each additional cancer product, as well as royalties on net sales of any of these additional cancer products using AdnaGen s technology. In addition, we retain a three-year right of first negotiation to negotiate with AdnaGen on exclusive rights to molecular diagnostic tests for breast, colon and lung cancers in the event that AdnaGen proposes to grant to any third party a license to AdnaGen technology for use to detect any of these cancers. The agreement will expire on the expiration of our obligation to pay royalties to AdnaGen under the agreement, which obligation remains in effect as long as the licensed products are covered by a valid claim of the licensed technology. We may terminate the agreement in our sole discretion upon 30 days prior written notice to AdnaGen, provided we have made any outstanding payments required under the agreement. Either

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party may terminate the agreement for cause by written notice to the other party of an uncured material breach by the other party or if the other party is unable to pay its debts or enters into compulsory or voluntary liquidation.

License Agreement with Corixa Corporation. In January 2005, we entered into a license agreement with Corixa Corporation pursuant to which we received the right to develop molecular diagnostic tests for multiple potential genetic markers in the areas of prostate, ovarian, cervical, kidney, lung and colon cancer. Pursuant to the terms of the agreement, we paid Corixa an initial access license fee of $1.6 million, an additional $1.6 million in February 2006 and have agreed to pay an additional $1.6 million on January 31, 2007, unless we terminate the agreement prior to that date. Pursuant to the agreement, we also agreed to pay Corixa milestone payments totaling an additional $2.0 million on a product-by-product basis based on the occurrence of certain, regulatory and/or commercial events. We also agreed to pay Corixa additional milestone payments and royalties on net sales of any products developed by us using Corixa s technology. The agreement will expire on the expiration of our obligation to pay royalties to Corixa under the agreement, which obligation remains in effect as long as the licensed products are covered by a valid claim of the licensed patent rights. We may terminate the agreement in our sole discretion upon 30 days prior written notice to Corixa, provided we have made any outstanding payments due under the agreement. Either party may terminate the agreement for cause by written notice to the other party of an uncured material breach by the other party or if the other party is unable to pay its debts or enters into compulsory or voluntary liquidation.

Patents and Proprietary Rights

To establish and protect our proprietary technologies and products, we rely on a combination of patent, copyright, trademark and trade secrets laws, as well as confidentiality provisions in our contracts.

We have implemented a patent strategy designed to maximize our intellectual property rights. We have obtained and are currently pursuing patent coverage in the United States and those foreign countries that are home to the majority of our anticipated customer base. As of December 31, 2005, we owned more than 390 issued United States and foreign patents. In addition, our patent portfolio includes pending patent applications in the United States and corresponding international filings in major industrial nations.

United States utility patents issued from applications filed prior to June 8, 1995 have a term of the longer of 20 years from the earliest priority date or 17 years from issue. United States utility patents issued from applications filed on or after June 8, 1995 have a term of 20 years from the earlier of the application filing date or earlier claimed priority date of a regular application. 111 of our current United States utility patents issued from applications filed prior to June 8, 1995. 90 of our United States utility patents issued from applications filed on or after June 8, 1995. We have three United States design patents that issued from applications filed on or after June 8, 1995 and have a term of 14 years from the date of issue. Patents in most foreign countries have a term of 20 years from the date of filing of the patent application. Because the time from filing to issuance of patent applications is often several years, this process may result in a shortened period of patent protection, which may adversely affect our ability to exclude competitors from our markets. The last of our currently issued patents will expire by July 6, 2023. Our continued success will depend to a significant degree upon our ability to develop proprietary products and technologies and to obtain patent coverage for those products and technologies. We intend to continue to file patent applications covering any novel and newly developed products and technologies.

On January 9, 2004, our basic patents covering detection of organisms using probes to ribosomal nucleic acid (the Kohne patents) expired in countries outside North America. While we have additional patents relating to ribosomal nucleic acid detection that remain in effect outside North America, these patents may not provide sufficiently broad protection to prevent competitors from selling products based on ribosomal nucleic acid detection in markets outside North America. In the United States, the last-to-expire of the Kohne patents remains in effect until March 3, 2015.

We also rely in part on trade secret protection for our intellectual property. We attempt to protect our trade secrets by entering into confidentiality agreements with third parties, employees and consultants. The source code for our proprietary software is protected both as a trade secret and as copyrighted work. Our

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employees also sign agreements requiring that they assign to us their interests in inventions and original expressions and any corresponding patents and copyrights arising from their work for us. However, it is possible that these agreements may be breached, invalidated or rendered unenforceable, and if so, there may not be an adequate corrective remedy available.

Competition

The medical diagnostics and biotechnology industries are subject to intense competition. Our competitors in the United States and abroad are numerous and include, among others, diagnostic, health care, pharmaceutical and biotechnology companies. Our major competitors in the NAT market include F. Hoffmann-La Roche Ltd. and its subsidiary Roche Molecular Systems, Inc., or, collectively, Roche, Abbott Laboratories, Becton Dickinson and Company, and bioMérieux S.A. All of these companies are manufacturers of laboratory-based tests and instruments for the NAT market, and we believe that all of these companies are developing automated systems similar to our TIGRIS instrument. We believe the primary competitive factors in the NAT market are sensitivity, specificity, ease of use, potential for automation, cost, proprietary position, regulatory approvals and compliance and, for clinical diagnostic tests, availability of appropriate reimbursement.

Many of our competitors have substantially greater financial, technical, research and other resources and larger, more established marketing, sales, distribution and service organizations than we do. Moreover, many of our competitors offer broader product lines and have greater brand recognition than we do, and offer price discounts as a competitive tactic. In addition, our competitors, many of which have made substantial investments in competing technologies, may limit or interfere with our ability to make, use or sell our products either in the United States or in international markets.

In the markets for clinical diagnostic products, a number of competitors, including Roche, Abbott Laboratories, Becton Dickinson and bioMérieux, compete with us for product sales, primarily on the basis of technology, quality, reputation, accuracy, ease of use, price, reliability, the timing of new product introductions and product line offerings. In markets outside of the United States, other factors, including local distribution systems, complex regulatory environments and differing medical philosophies and product preferences, influence competition as well. In the areas of NAT diagnostics for STDs, Roche and Becton Dickinson currently have FDA-approved tests for chlamydia infections and gonorrhea utilizing amplification technology. Although we believe that the APTIMA Combo 2 test has commercial advantages over the competing tests from Roche, Becton Dickinson and others, these competitors and potential competitors may be able to develop technologies that are as effective as, or more effective, or easier to interpret or less expensive than, those offered by us, which would render our products uncompetitive or obsolete.

In the market for blood screening products, our primary competitor is Roche, which received FDA approval of its PCR-based NAT tests for blood screening in December 2002. We also compete with assays developed internally by blood collection centers and laboratories based on PCR technology, an HCV antigen assay marketed by Ortho Clinical Diagnostics, a subsidiary of Johnson & Johnson, and immunoassay products from Abbott Laboratories. In the future, our blood screening products may compete with viral inactivation or reduction technologies and blood substitutes.

Chiron, with whom we have a collaboration agreement for our blood screening products, retains certain rights to grant licenses of the patents related to HCV and HIV to third parties in blood screening. Chiron has granted HIV and HCV licenses to Roche in the blood screening and clinical diagnostics fields. Chiron has granted HIV and HCV licenses in the clinical diagnostics field to Bayer Healthcare LLC, which also has the right to grant certain additional HIV and HCV sublicenses in the field to third parties. Chiron has granted an HCV license to Abbott and an HIV license to Organon Teknika (now bioMérieux) in the clinical diagnostics field. To the extent that Chiron grants additional licenses in blood screening or Bayer grants additional licenses in clinical diagnostics, further competition will be created for sales of HCV and HIV assays and these licenses could affect the prices that can be charged for our products.

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Government Regulation

Our clinical diagnostic products generally are classified in the United States as devices and are regulated by the FDA s Center for Devices and Radiological Health. Our blood screening products generally are classified in the United States as biologics and are regulated by the FDA s Center for Biologics Evaluation and Research.

For us to market our clinical diagnostic product kits as medical devices in the United States, we generally must first obtain clearance from the FDA pursuant to Section 510(k) of the Federal Food, Drug, and Cosmetic Act, or FFDCA. If we modify our products that already have received FDA clearance, the FDA may require us to submit a separate 510(k), a special 510(k) or a premarket approval application, or PMA, for the modified product before we are permitted to market it in the United States. In addition, if we develop products in the future that are not considered to be substantially equivalent to a legally marketed device, we will be required to obtain FDA approval by submitting a PMA.

By regulation, the FDA is required to respond to a 510(k) within 90 days of submission of the application. As a practical matter, final clearance often takes longer. The FDA may require further information, including additional clinical data, to make a determination regarding substantial equivalence. If the FDA determines that the device, or its intended use, is not substantially equivalent, the device sponsor must then fulfill much more rigorous premarketing requirements or re-submit a new 510(k) with additional data.

In October 2005, the FDA notified us that it considers our TIGRIS instrument for blood screening not substantially equivalent to our already cleared eSAS for screening donated human blood with the Procleix Ultrio assay. The FDA made this determination in response to our 510(k) application for the TIGRIS instrument for blood screening. We anticipate submitting a new 510(k) application for the TIGRIS instrument for use with the Procleix Ultrio assay following clearance of the TIGRIS instrument for use with the WNV assay. There can be no assurance that the TIGRIS instrument will receive FDA clearance for use with the WNV or Procleix Ultrio assays.

The PMA process is more demanding than the 510(k) premarket notification process. A PMA application, which is intended to demonstrate that the device is safe and effective, must be supported by extensive data, including data from preclinical studies, human clinical trials and existing research material, and must contain a full description of the device and its components, a full description of the methods, facilities and controls used for manufacturing, and proposed labeling. The FDA has 180 days to review a filed PMA application, although the review of an application more often occurs over a significantly longer period of time, up to several years. In approving a PMA application or clearing a 510(k) application, the FDA also may require some form of post-market surveillance, whereby the manufacturer follows certain patient groups for a number of years and makes periodic reports to the FDA on the clinical status of those patients when necessary to protect the public health or to provide additional safety and effectiveness data for the device. Our diagnostic assays for HCV and tuberculosis are examples of successful PMA applications.

When FDA approval of a clinical diagnostic device requires human clinical trials, and if the device presents a significant risk (as defined by the FDA) to human health, the device sponsor is required to file an investigational device exemption, or IDE, application with the FDA and obtain IDE approval prior to commencing the human clinical trial. If the device is considered a non-significant risk, IDE submission to FDA is not required. Instead, only approval from the Institutional Review Board overseeing the clinical trial is required.

Clinical trials must be conducted in accordance with Good Clinical Practice under protocols generally submitted to the FDA. Our clinical department has comprehensive experience with clinical trials of NAT products.

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After the FDA permits a device to enter commercial distribution, numerous regulatory requirements apply. In addition to potential product specific post-approval requirements, all devices are subject to:

- the Quality System Regulation, which requires manufacturers to follow comprehensive design, testing, control, documentation and other quality assurance procedures during the manufacturing process,
- labeling regulations,
- the FDA s general prohibition against promoting products for unapproved or off-label uses, and
- the Medical Device Reporting regulation, which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to reoccur.

Failure to comply with the applicable United States medical device regulatory requirements could result in, among other things, warning letters, fines, injunctions, civil penalties, repairs, replacements, refunds, recalls or seizures of products, total or partial suspension of production, the FDA s refusal to grant future premarket clearances or approvals, withdrawals or suspensions of current product applications, suspension of export certificates and criminal prosecution.

Our blood screening products also are subject to extensive pre- and post-market regulation as biologics by the FDA, including regulations that govern the testing, manufacturing, safety, efficacy, labeling, storage, record keeping, advertising, and promotion of the products under the FFDCA and the Public Health Services Act, and by comparable agencies in most foreign countries. The process required by the FDA before a biologic may be marketed in the United States generally involves the following:

- completion of preclinical laboratory testing,
- submission of an IND, which must become effective before biologic clinical trials may begin, and
- performance of adequate and well controlled human clinical trials to establish the safety and effectiveness of the proposed biologic s intended use.

The FDA requires approval of a BLA before a licensed biologic may be legally marketed in the United States. Product approvals may be withdrawn or suspended if compliance with regulatory standards is not maintained or if problems occur following initial marketing. With respect to patented products or technologies, delays imposed by the governmental approval process may materially reduce the period during which we will have exclusive rights to exploit them.

The results of product development and human studies are submitted to the FDA as part of each BLA. The BLA also must contain extensive manufacturing information. The FDA may approve or disapprove a BLA if applicable FDA regulatory criteria are not satisfied or it may require additional clinical data. If approved, the FDA may withdraw a product approval if compliance with post-market regulatory standards is not maintained or if problems occur after the product reaches the marketplace. In addition, the FDA may require post-marketing studies to monitor the effect of approved products, and may limit further marketing of the product based on the results of these post-market studies. The FDA has broad post-market regulatory and enforcement powers.

Satisfaction of FDA pre-market approval requirements for biologics can take several years and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease. In general, government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. Success in early stage clinical trials does not assure success in later stage clinical trials. Data obtained from clinical activities is not always conclusive and may be susceptible to varying interpretations that could delay, limit or prevent regulatory approval. Even if a product receives regulatory approval, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market.

Our clinical trial programs for blood screening products were developed in conjunction with our primary end users, The American Red Cross and America s Blood Centers. Our BLA for the Procleix HIV-1/ HCV

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assay was approved in February 2002. Clinical trials of the Procleix Ultrio assay were completed in 2004 with submission of a BLA in the third quarter of 2004. On October 26, 2005, we received a complete review letter from the FDA setting forth questions regarding our BLA for the Procleix Ultrio assay. We anticipate submitting a BLA amendment for the Procleix Ultrio assay for use on eSAS, responding to the FDA s questions, by the end of the first quarter of 2006. We anticipate submitting a (post-approval) BLA supplement for the Procleix Ultrio assay, for use on the TIGRIS instrument, following approval of the BLA for the Procleix Ultrio assay on eSAS. There can be no assurance that the Procleix Ultrio assay will receive regulatory approval by the FDA or that the TIGRIS instrument will receive FDA clearance for use with the Procleix Ultrio assay.

On December 1, 2005, the FDA granted marketing approval for our WNV assay on eSAS to screen donated human blood. The 510(k) clearance of eSAS for use with the WNV assay was granted prior to the assay s approval. We intend to submit for 510(k) clearance of the TIGRIS instrument for use with the WNV assay in the first part of 2006. We plan to submit a (post-approval) supplement to our WNV assay BLA, adding the TIGRIS instrument, at approximately the same time.

With respect to post-market product advertising and promotion, the FDA imposes a number of complex regulations on entities that advertise and promote biologics, which include, among others, standards and regulations for direct-to-consumer advertising, off-label promotion, industry sponsored scientific and educational activities, and promotional activities involving the Internet. The FDA has broad enforcement authority under the FFDCA, and failure to abide by applicable FDA regulations can result in penalties including the issuance of a warning letter directing the entity to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA, and state and federal civil and criminal investigations and prosecutions.

We and our contract medical product manufacturers are subject to periodic inspection by the FDA and other authorities where applicable, and are required to comply with the applicable FDA current Good Manufacturing Practice regulations. Good Manufacturing Practice regulations include requirements relating to quality control and quality assurance, as well as the corresponding maintenance of records and documentation, and provide for manufacturing facilities to be inspected by the FDA. Manufacturers of biologics also must comply with the FDA s general biological product standards. These standards often include lot release testing by the FDA.

Outside the United States, our ability to market our products is contingent upon maintaining our International Standards Organization (ISO) certification, and in some cases receiving specific marketing authorization from the appropriate foreign regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. Our EU foreign marketing authorizations cover all member states. Foreign registration is an ongoing process as we register additional products and/or product modifications.

We are also subject to various state and local laws and regulations in the United States relating to laboratory practices and the protection of the environment. In each of these areas, as above, regulatory agencies have broad regulatory and enforcement powers, including the ability to levy fines and civil and criminal penalties, suspend or delay issuance of approvals, seize or recall products, and withdraw approvals, any one or more of which could have a material adverse effect upon us. In addition, in the course of our business, we handle, store and dispose of chemicals. The environmental laws and regulations applicable to our operations include provisions that regulate the discharge of materials in the environment. Usually these environmental laws and regulations impose strict liability, rendering a person liable without regard to negligence or fault on the part of, or conditions caused by, others. We have not been required to expend material amounts in connection with our efforts to comply with environmental requirements. Because the requirements imposed by these laws and regulations frequently change, we are unable to predict the cost of compliance with these requirements in the future, or the effect of these laws on our capital expenditures, results of operations or competitive positions.

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Manufacturing and Raw Materials

We have two state-of-the-art manufacturing facilities in the United States. Our Mira Mesa manufacturing facility in San Diego, California is dedicated to producing our clinical diagnostic products and provides us with highly flexible and cost effective manufacturing capabilities. In 1999, we completed our Rancho Bernardo manufacturing facility in San Diego for the manufacture of our blood screening products. This facility meets the strict standards set by the FDA s Center for Biologics Evaluation and Research for the production of blood screening products. We built this facility with the capability to expand its operations to include production of additional assays for the blood screening market and organ transplant testing market. We believe this facility has the capacity to produce sufficient tests to satisfy current demand for these blood screening assays. We also have manufacturing capability at MLT s facility in Cardiff, United Kingdom and expect that some space at the 291,000 square-foot building we are constructing adjacent to our San Diego headquarters will be utilized for manufacturing. We believe that our existing manufacturing facilities provide us with capacity to meet the needs of our currently anticipated growth.

We store our finished products at our warehouses in our manufacturing facilities. Some of our products must be stored in industrial refrigeration or freezer units which are on site. We ship our products under ambient, refrigerated or frozen conditions, as necessary, through third-party service providers.

We rely on one contract manufacturer for the production of each of our instrument product lines. For example, KMC Systems is the only manufacturer of our TIGRIS instrument, and MGM Instruments is the only manufacturer of our LEADER series of luminometers. We have no firm long-term commitments from KMC Systems, MGM Instruments or any of our other manufacturers to supply products to us for any specific period, or in any specific quantity, except as may be provided in a particular purchase order.

We use a diverse and broad range of raw materials in the design, development and manufacture of our products. Although we produce some of our materials on site at our manufacturing facilities, we purchase most of the materials and components used to manufacture our products from external suppliers. In addition, we purchase many key raw materials from single source suppliers. For example, our current supplier of key raw materials for our amplified NAT assays, pursuant to a fixed-price contract, is the Roche Molecular Biochemicals Division of Roche Diagnostics GmbH, an affiliate of Roche Molecular Diagnostics, which is one of our primary competitors. In addition, we have entered into a supply agreement with F. Hoffmann-La Roche Ltd. and its affiliate Roche Molecular Systems, Inc. for the manufacture and supply of DNA probes for HPV. We work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. Although we generally consider and identify alternative suppliers, we do not typically pursue alternative sources due to the strength of our existing supplier relationships.

Quality Systems

We have implemented modern quality systems and concepts throughout our organization. Our regulatory, quality and government affairs department supervises our quality systems and is responsible for assuring compliance with all applicable regulations, standards and internal policies. Our senior management team is actively involved in setting quality policies, managing internal regulatory matters and monitoring external quality performance.

Our regulatory, quality and government affairs department has successfully led us through multiple quality and compliance audits by the FDA, foreign governments and customers. This department also coordinated an audit by TÜV Rheinland of North America, leading to our European Standard, EN 13485, certification. TÜV Rheinland of North America also certifies our Diagnostic CE marking activities.

Research and Development

As of December 31, 2005, we had 256 full-time and temporary employees in research and development. Our research and development expenses were $71.8 million in 2005, $68.5 million in 2004 and $63.6 million in 2003.

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Employees

As of December 31, 2005, we had 866 full-time employees, of whom 186 hold advanced degrees, 230 were in research and development, 119 were in regulatory, clinical and quality systems, 157 were in sales and marketing, 134 were in general and administrative and 226 were in operations. None of our employees is covered by a collective bargaining agreement, and we consider our relationship with our employees to be good. In addition, as of December 31, 2005, we had 84 temporary employees.

Item 1A. ***Risk Factors***

Our quarterly revenue and operating results may vary significantly in future periods and our stock price may decline.

Our operating results have fluctuated in the past and are likely to continue to do so in the future. Our revenues are unpredictable and may fluctuate due to changes in demand for our products, the timing of the execution of customer contracts, the timing of milestone payments, or the failure to achieve and receive the same, and the initiation or termination of corporate collaboration agreements. A significant portion of our costs also can vary substantially between quarterly or annual reporting periods. For example, the total amount of research and development costs in a period often depends on the amount of research and development costs we incur in connection with manufacturing developmental lots and clinical trial lots. We incurred substantial costs of manufacturing these lots in 2005 and expect to incur substantial costs for these lots in the future. Moreover, a variety of factors may affect our ability to make accurate forecasts regarding our operating results. For example, our blood screening products and some of our clinical diagnostic products, such as APTIMA Combo 2, have a relatively limited sales history, which limits our ability to project future sales and the sales cycle accurately. In addition, we base our internal projections of our blood screening product sales and international sales of diagnostic products on projections prepared by our distributors of these products and therefore we are dependent upon the accuracy of those projections. Because of all of these factors, our operating results in one or more future quarters may fail to meet or exceed financial guidance we may provide from time to time and the expectations of securities analysts or investors, which could cause our stock price to decline. In addition, the trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about our business and that of our competitors.

We are dependent on Chiron and other third parties for the distribution of some of our products. If any of our distributors terminates its relationship with us or fails to adequately perform, our product sales will suffer.

We rely on Chiron to distribute our blood screening products and Bayer to distribute some of our viral clinical diagnostic products. Commercial product sales by Chiron accounted for 42% of our total revenues for 2005 and 35% of our total revenues for 2004. Our agreement with Chiron will terminate in 2010 unless extended by the development of new products under the agreement, in which case the agreement will expire upon the later of the end of the original term or five years after the first commercial sale of the last new product developed during the original term.

In February 2001, we commenced an arbitration proceeding against Chiron in connection with our blood screening collaboration. The arbitration was resolved by mutual agreement in December 2001. In the event that we or Chiron commence arbitration against each other in the future under the collaboration agreement, proceedings could delay or decrease our receipt of revenue from Chiron or otherwise disrupt our collaboration with Chiron, which could cause our revenues to decrease and our stock price to decline.

On October 30, 2005, Chiron announced that it entered into a merger agreement with Novartis AG. In the event the merger is consummated, Chiron will become a wholly-owned subsidiary of Novartis. We do not know whether the merger will be consummated or, if consummated, what effect, if any, it will have on our relationship with Chiron.

Our agreement with Bayer for the distribution of our products will terminate in 2010. In November 2002, we initiated an arbitration proceeding against Bayer in connection with our clinical diagnostic collaboration.

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Under the terms of the collaboration agreement, Bayer acquired the exclusive right to distribute nucleic acid diagnostic tests designed and developed by us for the detection of HIV, hepatitis virus and other specified viruses, subject to specific conditions. Our demand for arbitration stated that Bayer has failed to fulfill the conditions required to maintain exclusive distribution rights. In June 2005, the arbitrator issued an Interim Opinion and Award and determined, among other things, that we are entitled to a co-exclusive right to distribute qualitative TMA assays to detect HCV and HIV-1 for the remaining term of the agreement. Bayer previously held the exclusive rights to market these products. We will be required to pay running sales royalties to Bayer on sales of the TMA assays for HCV and HIV-1, at rates we believe are generally consistent with rates paid by other licensees of the relevant patents. The arbitrator also determined that the collaboration agreement should be prospectively terminated, as we requested. As a result of a termination of the agreement, we will have the right to develop and market future viral assays that had been previously reserved for Bayer. Bayer will retain co-exclusive rights to distribute two products that it currently markets. The arbitrator s final decision in this matter is subject to a right to appeal to an arbitration appeal panel within JAMS. There can be no assurances as to the final outcome of the arbitration. We are also involved in patent litigation with Bayer.

We rely upon bioMérieux for distribution of certain of our products in most of Europe, Rebio Gen, Inc. for distribution of certain of our products in Japan, and various independent distributors for distribution of our products in other regions. Our distribution agreement with bioMérieux terminates on May 1, 2006, although it may terminate earlier under certain circumstances. The distribution rights revert back to us upon termination. Our distribution agreement with Rebio Gen terminates on March 31, 2006. We have commenced discussions with Rebio Gen regarding renewing the distribution agreement. However, we may not be able to renew the agreement on favorable terms, or at all.

If any of our distribution or marketing agreements is terminated, particularly our agreement with Chiron, and we are unable to renew or enter into an alternative agreement, or if we elect to distribute new products directly, we will have to invest in additional sales and marketing resources, including additional field sales personnel, which would significantly increase future selling, general and administrative expenses. We may not be able to enter into new distribution or marketing agreements on satisfactory terms, or at all. If we fail to enter into acceptable distribution or marketing agreements or fail to market successfully our products, our product sales will decrease.

If we cannot maintain our current corporate collaborations and enter into new corporate collaborations, our product development could be delayed. In particular, any failure by us to maintain our collaboration with Chiron with respect to blood screening would have a material adverse effect on our business.

We rely, to a significant extent, on our corporate collaborators for the joint development and marketing of our products. In addition, we expect to rely on our corporate collaborators for the commercialization of some of our products. If any of our corporate collaborators were to breach or terminate its agreement with us or otherwise fail to conduct its collaborative activities successfully and in a timely manner, the pre-clinical or clinical development or commercialization and subsequent marketing of the products contemplated by the collaboration could be delayed or terminated. We cannot control the amount and timing of resources our corporate collaborators devote to our programs or potential products.

The continuation of any of our collaboration agreements depends on their periodic renewal by us and our collaborators. For example, our agreement with Chiron will terminate in 2010 unless extended by the development of new products under the agreement, in which case it will expire upon the later of the original term or five years after the first commercial sale of the last new product developed during the original term. Subject to the final outcome of our arbitration with Bayer, the remaining provisions of our Bayer collaboration agreement will terminate in 2010. Both collaboration agreements are also subject to termination prior to expiration upon a material breach by either party to the agreement.

If any of our collaboration agreements is terminated, or if we are unable to renew those collaborations on acceptable terms, we would be required to devote additional internal resources to product development or marketing or to terminate some development programs or seek alternative corporate collaborations. We may not be able to negotiate additional corporate collaborations on acceptable terms, if at all, and these

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collaborations may not be successful. In addition, in the event of a dispute under our current or any future collaboration agreements, such as those under our agreements with Chiron and Bayer, a court or arbitrator may not rule in our favor and our rights or obligations under an agreement subject to a dispute may be adversely affected, which may have an adverse impact on our business or operating results.

If our TIGRIS instrument reliability does not meet market expectations, we may be unable to retain our existing customers and attract new customers.

Complex diagnostic instruments such as our TIGRIS instrument typically require operating and reliability improvements following their initial introduction. We believe that our experience with the TIGRIS instrument is consistent with the general experience for comparable diagnostic instruments. We have initiated an in-service reliability improvement program for our TIGRIS instrument and a number of improvements have been installed at customers sites. If the continuous improvement program does not result in improved instrument reliability, we could incur greater than anticipated service expenses and market acceptance of the instrument could be adversely affected. We have also committed significant resources to our reliability improvement program. Our Vice President, Product Development is leading this effort as her primary assignment. However, these additional resources may not result in the desired improvements in the reliability of our TIGRIS instrument. Additionally, failure to resolve reliability issues as they develop could materially damage our reputation and prevent us from retaining our existing customers and attracting new customers.

We and our customers are subject to various governmental regulations, and we may incur significant expenses to comply with, and experience delays in our product commercialization as a result of, these regulations.

The clinical diagnostic and blood screening products we design, develop, manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of seeking and obtaining regulatory approvals, particularly from the FDA and some foreign governmental authorities, to market our products can be costly and time consuming, and approvals might not be granted for future products on a timely basis, if at all. For example, in October 2005, the FDA notified us that it considers our TIGRIS instrument for blood screening not substantially equivalent to our already cleared eSAS for screening donated human blood with the Procleix Ultrio assay. The FDA made this determination in response to our 510(k) application for the TIGRIS instrument for blood screening. Also in October 2005, we received a complete review letter from the FDA setting forth questions regarding our BLA for the Procleix Ultrio assay itself. There can be no assurance that the Procleix Ultrio assay will receive regulatory approval by the FDA or that the TIGRIS instrument will receive FDA clearance for use with the WNV or Procleix Ultrio assays.

We generally are prohibited from marketing our clinical diagnostic products in the United States unless we obtain either 510(k) clearance or premarket approval from the FDA. Delays in receipt of, or failure to obtain, clearances or approvals for future products could result in delayed, or no, realization of product revenues from new products or in substantial additional costs which could decrease our profitability.

In addition, we are required to continue to comply with applicable FDA and other regulatory requirements once we have obtained clearance or approval for a product. These requirements include, among other things, the Quality System Regulation, labeling requirements, the FDA s general prohibition against promoting products for unapproved or off-label uses and adverse event reporting regulations. Failure to comply with applicable FDA product regulatory requirements could result in, among other things, warning letters, fines, injunctions, civil penalties, repairs, replacements, refunds, recalls or seizures of products, total or partial suspension of production, the FDA s refusal to grant future premarket clearances or approvals, withdrawals or suspensions of current product applications and criminal prosecution. Any of these actions, in combination or alone, could prevent us from selling our products and harm our business.

Outside the United States, our ability to market our products is contingent upon maintaining our International Standards Organization (ISO) certification, and in some cases receiving specific marketing authorization from the appropriate foreign regulatory authorities. The requirements governing the conduct of

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clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. Our EU foreign marketing authorizations cover all member states. Foreign registration is an ongoing process as we register additional products and/or product modifications.

As both the FDA and foreign government regulators have become increasingly stringent, we may be subject to more rigorous regulation by governmental authorities in the future. Our products and operations also are often subject to the rules of industrial standards bodies, such as the International Standards Organization. Complying with these rules and regulations could cause us to incur significant additional expenses, which would harm our operating results.

The use of our diagnostic products is also affected by the Clinical Laboratory Improvement Amendments of 1988, or CLIA, and related federal and state regulations which provide for regulation of laboratory testing. CLIA is intended to ensure the quality and reliability of clinical laboratories in the United States by mandating specific standards in the areas of personnel qualifications, administration, participation in proficiency testing, patient test management, quality and inspections. Current or future CLIA requirements or the promulgation of additional regulations affecting laboratory testing may prevent some clinical laboratories from using any or all of our diagnostic products.

We face intense competition, and our failure to compete effectively could decrease our revenues and harm our profitability and results of operations.

The clinical diagnostics industry is highly competitive. Currently, the majority of diagnostic tests used by physicians and other health care providers are performed by large reference laboratories, public health laboratories and hospitals. We expect that these laboratories will compete vigorously to maintain their dominance in the diagnostic testing market. In order to achieve market acceptance of our products, we will be required to demonstrate that our products provide accurate, cost-effective and time saving alternatives to tests performed by traditional laboratory procedures and products made by our competitors.

In the markets for clinical diagnostic products, a number of competitors, including Roche, Abbott Laboratories, Becton Dickinson and bioMérieux, compete with us for product sales, primarily on the basis of technology, quality, reputation, accuracy, ease of use, price, reliability, the timing of new product introductions and product line offerings. In markets outside of the United States, other factors, including local distribution systems, complex regulatory environments and differing medical philosophies and product preferences influence competition as well. Many of our competitors have, and in the future these and other competitors may have, significantly greater financial, marketing, sales, manufacturing, distribution and technological resources than us. Moreover, these companies may have substantially greater expertise in conducting clinical trials and research and development, greater ability to obtain necessary intellectual property licenses and greater brand recognition than we do. In addition, we have licensed some of our proprietary technology relating to certain clinical diagnostic and food pathogen applications for use on specific instruments to bioMérieux, and we may license other technologies to potential competitors in the future. As a result, we may in the future compete with bioMérieux and these other licensees for sales of products incorporating our technology. Our competitors may be in better position to respond quickly to new or emerging technologies, may be able to undertake more extensive marketing campaigns, may adopt more aggressive pricing policies and may be more successful in attracting potential customers, employees and strategic partners than we are. Some of our competitors have developed real time or kinetic nucleic acid assays and semi-automated instrument systems for those assays. Our competitors may be further in the development process than we are with respect to such assays and instrumentation.

In the market for blood screening products, our primary competitor is Roche, which received FDA approval of its PCR-based NAT tests for blood screening in December 2002. We also compete with blood banks and laboratories that have internally developed assays based on PCR technology, Ortho Clinical Diagnostics, a subsidiary of Johnson & Johnson, that markets an HCV antigen assay, and Abbott Laboratories with respect to immunoassay products. In the future, our blood screening products also may compete with viral inactivation or reduction technologies and blood substitutes.

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Chiron, with whom we have a collaboration agreement for our blood screening products, retains certain rights to grant licenses of the patents related to HCV and HIV to third parties in blood screening. Chiron has granted HIV and HCV licenses to Roche Molecular Systems in the blood screening and clinical diagnostics fields. Chiron has granted HIV and HCV licenses in the clinical diagnostics field to Bayer Healthcare LLC, which also has the right to grant certain additional HIV and HCV sublicenses in the field to third parties. Chiron has granted an HCV license to Abbott and an HIV license to Organon Teknika (now bioMérieux) in the clinical diagnostics field. To the extent that Chiron grants additional licenses in blood screening or Bayer grants additional licenses in clinical diagnostics, further competition will be created for sales of HCV and HIV assays and these licenses could affect the prices that can be charged for our products.

Our gross profit margin percentage on the sale of blood screening assays may decrease upon the implementation of individual donor testing.

We currently receive revenues from the sale of our blood screening assays for use with pooled donor samples. In pooled testing, multiple donor samples are initially screened by a single test. However, Chiron sells our blood screening assays to blood collection centers on a per donation basis. We expect the blood screening market ultimately to transition from pooled testing to individual donor testing. A greater number of tests will be required for individual donor testing than are now required for pooled testing. Under our collaboration agreement with Chiron, we bear the cost of manufacturing our blood screening assays. The greater number of tests required for individual donor testing will increase our variable manufacturing costs, including costs of raw materials and labor. If the price per donor or total sales volume does not increase in line with the increase in our total variable manufacturing costs, our gross profit margin percentage from sales of the blood screening assay may decrease upon the adoption of individual donor testing. We are not able to predict accurately the extent to which our gross profit margin percentage may be negatively affected as a result of individual donor testing, because we do not know the ultimate selling price that Chiron would charge to the end user if individual donor testing were implemented.

Because we depend on a small number of customers for a significant portion of our total revenues, the loss of any of these customers or any cancellation or delay of a large purchase by any of these customers could significantly reduce our revenues.

Historically, a limited number of customers has accounted for a significant portion of our total revenues, and we do not have any long-term commitments with these customers other than our collaboration agreement with Chiron. Our blood screening collaboration with Chiron accounted for 52% of our total revenues for 2005, compared to 47% for 2004. Our blood screening collaboration with Chiron is largely dependent on two large customers in the United States, The American Red Cross and America s Blood Centers, although we did not receive any revenues directly from those entities. Chiron was our only customer that accounted for greater than 10% of our total revenues for 2005. In addition, Quest Diagnostics Incorporated, Laboratory Corporation of America Holdings and various state and city public health agencies accounted for an aggregate of 20% of our total revenues in each of 2005 and 2004. Although state and city public health agencies are legally independent of each other, we believe they tend to act similarly with respect to their product purchasing decisions. We anticipate that our operating results will continue to depend to a significant extent upon revenues from a small number of customers. The loss of any of our key customers, or a significant reduction in sales to those customers, could significantly reduce our revenues.

Intellectual property rights on which we rely to protect the technologies underlying our products may be inadequate to prevent third parties from using our technologies or developing competing products.

Our success will depend in part on our ability to obtain patent protection for, or maintain the secrecy of, our proprietary products, processes and other technologies for development of blood screening and clinical diagnostic products and instruments. Although we had had more than 390 United States and foreign patents covering our products and technologies as of December 31, 2005, these patents, or any patents that we may own or license in the future, may not afford meaningful protection for our technology and products. The pursuit and assertion of a patent right, particularly in areas like nucleic acid diagnostics and biotechnology,

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involve complex determinations and, therefore, are characterized by substantial uncertainty. In addition, the laws governing patentability and the scope of patent coverage continue to evolve, particularly in biotechnology. As a result, patents might not issue from certain of our patent applications or from applications licensed to us. Our existing patents will expire by July 6, 2023, and the patents we may obtain in the future also will expire over time.

The scope of any of our issued patents may not be broad enough to offer meaningful protection. In addition, others may challenge our current patents or patents we may obtain in the future and, as a result, these patents could be narrowed, invalidated or rendered unenforceable, or we may be forced to stop using the technology covered by these patents or to license technology from third parties. Bayer recently initiated patent litigation against us alleging that we are developing real-time diagnostic assays for HIV and HCV that are covered by certain patents without the authorization of the patent owner.

The laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. Any patents issued to us or our strategic partners may not provide us with any competitive advantages, and the patents held by other parties may limit our freedom to conduct our business or use our technologies. Our efforts to enforce and maintain our intellectual property rights may not be successful and may result in substantial costs and diversion of management time. Even if our rights are valid, enforceable and broad in scope, competitors may develop products based on technology that is not covered by our patents.

In addition to patent protection, we also rely on copyright and trademark protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, we require our employees, consultants, advisors and others to whom we disclose confidential information to execute confidentiality and proprietary information agreements. However, it is possible that these agreements may be breached, invalidated or rendered unenforceable, and if so, there may not be an adequate corrective remedy available. Furthermore, like many companies in our industry, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities we conduct. In some situations, our confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Although we require our employees and consultants to maintain the confidentiality of all confidential information of previous employers, we or these individuals may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. Finally, others may independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets. Our failure to protect our proprietary information and techniques may inhibit or limit our ability to exclude certain competitors from the market and execute our business strategies.

The diagnostic products industry has a history of patent and other intellectual property litigation, and we have been and may continue to be involved in costly intellectual property lawsuits.

The diagnostic products industry has a history of patent and other intellectual property litigation, and these lawsuits likely will continue. From time-to-time in the ordinary course of business we receive communications from third parties calling our attention to patents or other intellectual property rights owned by them, with the implicit or explicit suggestion that we may need to acquire a license of such rights. We have faced in the past, are currently facing, and may face in the future, patent infringement lawsuits by companies that control patents for products and services similar to ours or other lawsuits alleging infringement by us of their intellectual property rights. In order to protect or enforce our intellectual property rights, we may have to initiate legal proceedings against third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert management s attention from other business concerns. The cost of this litigation could adversely affect our results of operations, making us less profitable. Further, if we do not prevail in an infringement lawsuit brought against us, we might have to pay substantial damages, including treble damages, and we could be required to stop the infringing activity or obtain a license to use the patented technology.

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Recently, we have been involved in a number of patent disputes with third parties, including Bayer, some of which remain unresolved. Additionally, we hold certain rights in the blood screening and clinical diagnostics fields under Chiron patents covering the detection of HIV. In February 2005, the U.S. Patent and Trademark Office declared two interferences related to Chiron s U.S. Patent No. 6,531,276 (Methods For Detecting Human Immunodeficiency Virus Nucleic Acid) (the 276 patent). The first interference is between Chiron and Centocor, Inc., and pertains to Centocor s U.S. Patent Application No. 06/693,866 (Cloning and Expression of HTLV-III DNA) (the 866 application). The second interference is between Chiron and Institut Pasteur, and pertains to Institut Pasteur s U.S. Patent Application No. 07/999,410 (Cloned DNA Sequences, Hybridizable with Genomic RNA of Lymphadenopathy-Associated Virus (LAV)) (the 410 application). Chiron is the junior party in both interferences. In February 2005, at about the time the interferences were declared, we received a letter from the Institut Pasteur regarding alleged infringement of Institut Pasteur s European Patent EP 0 178 978 (Cloned DNA sequences, hybridizable with genomic RNA of lymphadenopathy-associated virus, or LAV) (978 patent), by the HIV-1 nucleic acid screening assays performed on our Procleix system that is marketed and distributed by Chiron. There can be no assurances as to the ultimate outcomes of these matters.

We may be subject to future product liability claims that may exceed the scope and amount of our insurance coverage, which would expose us to liability for uninsured claims.

While there is a federal preemption defense against product liability claims for medical products that receive premarket approval from the FDA, we believe that no such defense is available for our products that we market under a 510(k) clearance. As such, we are subject to potential product liability claims as a result of the design, development, manufacture and marketing of our clinical diagnostic products. Any product liability claim brought against us, with or without merit, could result in the increase of our product liability insurance rates. In addition, our insurance policies have various exclusions, and thus we may be subject to a product liability claim for which we have no insurance coverage, in which case, we may have to pay the entire amount of any award. In addition, insurance varies in cost and can be difficult to obtain, and we may not be able to obtain insurance in the future on terms acceptable to us, or at all. A successful product liability claim brought against us in excess of our insurance coverage may require us to pay substantial amounts, which could harm our business and results of operations.

We are exposed to risks associated with acquisitions and other long-lived and intangible assets that may become impaired and result in an impairment charge.

As of December 31, 2005, we had approximately $194.4 million of long-lived assets, including $21.0 million of capitalized software relating to our TIGRIS instrument, goodwill of $18.6 million, a $2.5 million investment in Molecular Profiling Institute, Inc., and $47.1 million of capitalized license and manufacturing fees, patents and purchased intangibles. Additionally, we had $32.3 million of land and building, $4.3 million of leasehold improvements, $35.5 million of construction in-progress and $33.1 million of equipment and furniture and fixtures. The carrying amounts of long-lived and intangible assets are affected whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. These events or changes might include a significant decline in market share, a significant decline in profits, rapid changes in technology, significant litigation or other matters. Adverse events or changes in circumstances may affect the estimated undiscounted future operating cash flows expected to be derived from long-lived and intangible assets. If at any time we determine that an impairment has occurred, we will be required to reflect the impaired value as a charge, resulting in a reduction in earnings in the quarter such impairment is identified and a corresponding reduction in our net asset value. A material reduction in earnings resulting from such a charge could cause us to fail to be profitable in the period in which the charge is taken or otherwise fail to meet the expectations of investors and securities analysts, which could cause the price of our stock to decline.

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Our future success will depend in part upon our ability to enhance existing products and to develop and introduce new products.

The markets for our products are characterized by rapidly changing technology, evolving industry standards and new product introductions, which may make our existing products obsolete. Our future success will depend in part upon our ability to enhance existing products and to develop and introduce new products, including with our industrial collaborators. We believe that we will need to continue to provide new products that can detect a greater number of organisms from a single sample. We also believe that we must develop new assays that can be performed on automated instrument platforms, such as our TIGRIS instrument.

The development of new or enhanced products is a complex and uncertain process requiring the accurate anticipation of technological and market trends, as well as precise technological execution. In addition, the successful development of new products will depend on the development of new technologies. We may be required to undertake time-consuming and costly development activities and to seek regulatory approval for these new products. We may experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products. For example, we recently announced delays in FDA clearance for our TIGRIS instrument for blood screening with the Procleix Ultrio assay and regarding our BLA for the Procleix Ultrio assay itself. Regulatory clearance or approval of these and any other new products may not be granted by the FDA or foreign regulatory authorities on a timely basis, or at all, and these and other new products may not be successfully commercialized.

We recently entered into collaboration agreements to develop NAT products for industrial testing applications. We have limited experience operating in these markets and may not successfully develop commercially viable products.

In July and August 2005 we entered into collaboration agreements to develop NAT products for detecting microorganisms in selected water applications and for microbiological and virus monitoring in the biotechnology and pharmaceutical manufacturing industries. Our experience to date has been primarily focused on developing products for the clinical diagnostic and blood screening markets. We have limited experience applying our technologies and operating in these new industrial testing markets. The process of successfully developing products for application in these potential markets is expensive, time-consuming and unpredictable. Research and development programs to create new products require a substantial amount of our scientific, technical, financial and human resources even if no new products are successfully developed. We will need to make significant investments to ensure that any products we develop perform properly, are cost-effective and adequately address customer needs. Even if we develop products for commercial use in these markets, any products we develop may not be accepted in these markets, may be subject to competition and may be subject to other risks and uncertainties associated with these new markets. We have no experience with customer and customer support requirements, sales cycles, and other industry-specific requirements or dynamics applicable to these new markets and we and our collaborators may not be able to successfully convert customers from traditional culture and other testing methods to tests using our NAT technologies, which we expect will be more expensive than existing methods. We will be reliant on our collaborators and their experience and expertise in addressing customer needs and other requirements in these markets. Our interests may be different from those of our collaborators and conflicts may arise in these collaboration arrangements that have an adverse impact on our ability to develop new products. As a result of these risks and other uncertainties, there is no guarantee that we will be able to successfully develop commercially viable products for application in industrial testing or any other new markets.

We expect to continue to incur significant research and development expenses, which may make it difficult for us to maintain profitability.

In recent years, we have incurred significant costs in connection with the development of our blood screening and clinical diagnostic products and our TIGRIS instrument. We expect our expense levels to remain high in connection with our research and development as we continue to expand our product offerings and continue to develop products and technologies in collaboration with our strategic partners. As a result, we will need to continue to generate significant revenues to maintain profitability. Although we expect our

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research and development expenses as a percentage of revenue to decrease in future periods, we may not be able to generate revenues and may not maintain profitability in the future. Our failure to maintain profitability in the future could cause the market price of our common stock to decline.

We may not have financing for future capital requirements, which may prevent us from addressing gaps in our product offerings or improving our technology.

Although historically our cash flow from operations has been sufficient to satisfy working capital, capital expenditure and research and development requirements, we may in the future need to incur debt or issue equity in order to fund these requirements as well as to make acquisitions and other investments. If we cannot obtain debt or equity financing on acceptable terms or are limited with respect to incurring debt or issuing equity, we may be unable to address gaps in our product offerings or improve our technology, particularly through strategic acquisitions or investments.

We may need to raise substantial amounts of money to fund a variety of future activities integral to the development of our business, including:

for research and development to successfully develop new technologies and products,

to conduct clinical trials,

to obtain regulatory approval for new products,

to file and prosecute patent applications and defend and assert patents to protect our technologies, including through costly litigation,

to manufacture additional products ourselves or through third parties,

to market different products to different markets, either through building our own sales and distribution capabilities or relying on third parties, and

to acquire new technologies, products or companies.

If we raise funds through the issuance of debt or equity, including through the issuance of debt or equity securities pursuant to our Form S-3 shelf registration statement that we filed on August 29, 2003 with the SEC relating to the possible future sale of up to an aggregate of $150 million of debt or equity securities, any debt securities or preferred stock issued will have rights, preferences and privileges senior to those of holders of our common stock in the event of a liquidation and may contain other provisions that adversely effect the rights of the holders of our common stock. The terms of any debt securities may impose restrictions on our operations. If we raise funds through the issuance of equity or debt convertible into equity, this issuance would result in dilution to our stockholders.

We have only one third-party manufacturer for each of our instrument product lines, which exposes us to increased risks associated with delivery schedules, manufacturing capability, quality control, quality assurance and costs.

We have one third-party manufacturer for each of our instrument product lines. KMC Systems is the only manufacturer of our TIGRIS instrument. MGM Instruments, Inc. is the only manufacturer of our LEADER series of luminometers. We are dependent on these third-party manufacturers, and this dependence exposes us to increased risks associated with delivery schedules, manufacturing capability, quality control, quality assurance and costs. We have no firm long-term commitments from KMC Systems, MGM Instruments or any of our other manufacturers to supply products to us for any specific period, or in any specific quantity, except as may be provided in a particular purchase order. If KMC Systems, MGM Instruments or any of our other third-party manufacturers experiences delays, disruptions, capacity constraints or quality control problems in its manufacturing operations or becomes insolvent, then product shipments to our customers could be delayed, which would decrease our revenues and harm our competitive position and reputation.

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Further, our business would be harmed if we fail to manage effectively the manufacturing of our products. Because we place orders with our manufacturers based on our forecasts of expected demand for our products, if we inaccurately forecast demand, we may be unable to obtain adequate manufacturing capacity or adequate quantities of components to meet our customers delivery requirements, or we may accumulate excess inventories.

We may in the future need to find new contract manufacturers to increase our volumes or to reduce our costs. We may not be able to find contract manufacturers that meet our needs, and even if we do, qualifying a new contract manufacturer and commencing volume production is expensive and time consuming. For example, qualifying a new manufacturer of our TIGRIS instrument would take approximately 12 months. If we are required or elect to change contract manufacturers, we may lose revenues and our customer relationships may suffer.

If we or our contract manufacturers are unable to manufacture our products in sufficient quantities, on a timely basis, at acceptable cost and in compliance with regulatory requirements, our ability to sell our products will be harmed.

We must manufacture or have manufactured our products in sufficient quantities and on a timely basis, while maintaining product quality and acceptable manufacturing costs and complying with regulatory requirements. In determining the required quantities of our products and the manufacturing schedule, we must make significant judgments and estimates based on historical experience, inventory levels, current market trends and other related factors. Because of the inherent nature of estimates, there could be significant differences between our estimates and the actual amounts of products we and our distributors require, which could harm our business and results of operations.

Significant additional work will be required for scaling-up manufacturing of each new product prior to commercialization, and we may not successfully complete this work. Manufacturing and quality control problems have arisen and may arise as we attempt to scale-up our manufacturing of a new product, and we may not achieve scale-up in a timely manner or at a commercially reasonable cost, or at all. In addition, although we expect some of our newer products and products under development to share production attributes with our existing products, production of these newer products may require the development of new manufacturing technologies and expertise. For example, we anticipate that we will need to develop closed unit assay pouches containing both liquid reagents and dried pellets to be used in industrial applications, which will be a new process for us. We may be unable to develop the required technologies or expertise.

The amplified NAT tests that we produce are significantly more expensive to manufacture than our non-amplified products. As we continue to develop new amplified NAT tests in response to market demands for greater sensitivity, our product costs will increase significantly and our margins may decline. We sell our products in a number of cost-sensitive market segments, and we may not be able to manufacture these more complex amplified tests at costs that would allow us to maintain our historical gross margin percentages. In addition, new products that detect more than one target organism will contain significantly more complex reagents, which will increase the cost of our manufacturing processes and quality control testing. We or other parties we engage to help us may not be able to manufacture these products at a cost or in quantities that would make these products commercially viable. If we are unable to develop or contract for manufacturing capabilities on acceptable terms for our products under development, we will not be able to conduct pre-clinical and clinical and validation testing on these product candidates, which will prevent or delay regulatory clearance or approval of these product candidates and the initiation of new development programs.

Our blood screening and clinical diagnostic products are regulated by the FDA as well as other foreign medical regulatory bodies. In some cases, such as in the United States and the European Union, certain tests may also require individual lot release testing. Maintaining compliance with multiple regulators, and multiple centers within the FDA, adds complexity and cost to our overall manufacturing processes. In addition, our manufacturing facilities and those of our contract manufacturers are subject to periodic regulatory inspections by the FDA and other federal and state regulatory agencies, and these facilities are subject to Quality System

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Regulations requirements of the FDA. We or our contractors may fail to satisfy these regulatory requirements in the future, and any failure to do so may prevent us from selling our products.

Our products are subject to recalls even after receiving FDA approval or clearance.

The FDA and governmental bodies in other countries have the authority to require the recall of our products if we fail to comply with relevant regulations pertaining to product manufacturing, quality, labeling, advertising, or promotional activities, or if new information is obtained concerning the safety of a product. A government-mandated recall, or a voluntary recall by us, could divert managerial and financial resources and potentially harm our reputation with customers. In the past, we have had four voluntary recalls, which, in each case, required us to identify and correct the problem. For example, we experienced a recall in June 2004 as a result of a customer complaint about our Mycobacterium Tuberculosis product suggesting reduced stability of one of our reagents. The problem was identified and corrected and customers were provided with replacement reagent. Our products may be subject to additional recalls in the future. Future recalls could be more difficult and costly to correct, may result in the suspension of sales of our products, and may harm our financial results and our reputation.

Our sales to international markets are subject to additional risks.

Sales of our products outside the United States accounted for 21% of our total revenues for 2005 and 15% of our total revenues for 2004. Sales by Chiron of our blood screening products outside of the United States accounted for 78% of our international revenues for 2005 and 58% of our international revenues for 2004. Chiron has responsibility for the international distribution of our blood screening products, which includes sales in France, Australia, Singapore, New Zealand, South Africa, Italy and other countries. Our sales in France and Japan that were not made through Chiron each accounted for 5% of our international sales for 2005 and 10% and 6%, respectively, for 2004.

We encounter risks inherent in international operations. We expect a significant portion of our sales growth, especially with respect to our blood screening products, to come from expansion in international markets. Other than Canada, our sales are currently denominated in United States dollars. If the value of the United States dollar increases relative to foreign currencies, our products could become less competitive in international markets. Our international sales also may be limited or disrupted by:

the imposition of government controls,

export license requirements,

economic and political instability,

price controls,

trade restrictions and tariffs,

differing local product preferences and product requirements, and

changes in foreign medical reimbursement and coverage policies and programs.

We also may have difficulty introducing new products in international markets. For example, we do not believe our blood screening products will be widely adopted in Germany until we are able to offer an assay that screens for HBV, HAV, and parvo B19, as well as HIV-1 and HCV, or in Japan until we are able to offer an assay that meets particular Japanese requirements for screening for HBV, HIV-1 and HCV. Whenever we seek to enter a new international market, we will be dependent on the marketing and sales efforts of our international distributors.

In addition, we anticipate that requirements for smaller pool sizes or ultimately individual donor testing of blood samples, if and when implemented, could result in lower gross margin rates, as additional tests would be required to deliver the sample results, unless a corresponding increase in sales pricing structure is implemented. In general, international pool sizes are smaller than domestic pool sizes and, therefore, growth in blood screening revenues attributed to international expansion may lead to lower gross margin rates.

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If third-party payors do not reimburse our customers for the use of our clinical diagnostic products or if they reduce reimbursement levels, our ability to sell our products will be harmed.

We sell our clinical diagnostic products primarily to large reference laboratories, public health laboratories and hospitals, substantially all of which receive reimbursement for the health care services they provide to their patients from third-party payors, such as Medicare, Medicaid and other domestic and international government programs, private insurance plans and managed care programs. Most of these third-party payors may deny reimbursement if they determine that a medical product was not used in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Third-party payors also may refuse to reimburse for experimental procedures and devices.

Third-party payors reimbursement policies may affect sales of our products that screen for more than one pathogen at the same time, such as our APTIMA Combo 2 product for screening for the causative agents of chlamydial infections and gonorrhea in the same sample. Third-party payors may choose to reimburse our customers on a per test basis, rather than on the basis of the number of results given by the test. This may result in laboratories and hospitals electing to use separate tests to screen for each disease so that they can receive reimbursement for each test they conduct. In that event, laboratories and hospitals likely would purchase separate tests for each disease, rather than products that test for more than one microorganism.

In addition, third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for medical products and services. Levels of reimbursement may decrease in the future, and future legislation, regulation or reimbursement policies of third-party payors may adversely affect the demand for and price levels of our products. If our customers are not reimbursed for our products, they may reduce or discontinue purchases of our products, which would cause our revenues to decline.

Disruptions in the supply of raw materials and consumable goods from our single source suppliers, including the Roche Molecular Biochemicals division of Roche Diagnostics GmbH, which is an affiliate of one of our primary competitors, could result in a significant disruption in sales and profitability.

We purchase some key raw materials and consumable goods used in the manufacture of our products from single-source suppliers. We may not be able to obtain supplies from replacement suppliers on a timely or cost-effective basis. For example, our current supplier of certain key raw materials for our amplified NAT assays, pursuant to a fixed-price contract, is Roche Molecular Biochemicals, and we have a supply agreement for nucleic acids for human papillomavirus with Roche Molecular Systems, each of which are affiliates of Roche Diagnostics GmbH, one of our primary competitors. A reduction or stoppage in supply while we seek a replacement supplier would limit our ability to manufacture our products, which could result in a significant reduction in sales and profitability. In addition, an impurity or variation in a raw material, either unknown to us or incompatible with our products, could significantly reduce our ability to manufacture products. Our inventories may not be adequate to meet our production needs during any prolonged interruption of supply. We also have single source suppliers for proposed future products. Failure to maintain existing supply relationships or to obtain suppliers for our future products, if any, on commercially reasonable terms would prevent us from manufacturing our future products and limit our growth.

We are dependent on technologies we license, and if we fail to license new technologies and rights to particular nucleic acid sequences for targeted diseases in the future, we may be limited in our ability to develop new products.

We are dependent on licenses from third parties for some of our key technologies. For example, our patented Transcription-Mediated Amplification technology is based on technology we have licensed from Stanford University and the chemiluminescence technology we use in our products is based on technology licensed by our consolidated subsidiary, Molecular Light Technology Limited, from the University of Wales College of Medicine. We enter into new licensing arrangements in the ordinary course of business to expand our product portfolio and access new technologies to enhance our products and develop new products. If our license with respect to any of these technologies is terminated for any reason, we will not be able to sell

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products that incorporate the technology. Third parties that license technologies to us also may be acquired by our competitors or may otherwise attempt to terminate or restrict our licenses for their commercial benefit. In addition, our ability to develop additional diagnostic tests for diseases may depend on the ability of third parties to discover particular sequences or markers and correlate them with disease, as well as the rate at which such discoveries are made. Our ability to design products that target these diseases may depend on our ability to obtain the necessary rights from third parties who make any of these discoveries. In addition, there are a finite number of diseases and conditions for which our NAT assays may be economically viable. If we are unable to access new technologies or the rights to particular sequences or markers necessary for additional diagnostic products on commercially reasonable terms, we may be limited in our ability to develop new diagnostic products.

If we fail to attract, hire and retain qualified personnel, we may not be able to design, develop, market or sell our products or successfully manage our business.

Competition for top management personnel is intense and we may not be able to recruit and retain the personnel we need. The loss of any one of our management personnel, particularly Henry L. Nordhoff, our Chairman, President and Chief Executive Officer, or our inability to identify, attract, retain and integrate additional qualified management personnel, could make it difficult for us to manage our business successfully, attract new customers, retain existing customers and pursue our strategic objectives. Although we have employment agreements with our executive officers, we may be unable to retain our existing management. We do not maintain key person life insurance for any of our executive officers.

Competition for skilled sales, marketing, research, product development, engineering, and technical personnel is intense and we may not be able to recruit and retain the personnel we need. The loss of the services of any key sales, marketing, research, product development, engineering, or technical personnel, or our inability to hire new personnel with the requisite skills, could restrict our ability to develop new products or enhance existing products in a timely manner, sell products to our customers or manage our business effectively.

We may acquire other businesses or form collaborations, strategic alliances and joint ventures that could decrease our profitability, result in dilution to stockholders or cause us to incur debt or significant expense.

As part of our business strategy, we intend to pursue acquisitions of complementary businesses and enter into technology licensing arrangements. We also intend to pursue strategic alliances that leverage our core technology and industry experience to expand our product offerings and geographic presence. We have limited experience with respect to acquiring other companies and forming collaborations, strategic alliances and joint ventures. Any future acquisitions by us also could result in large and immediate write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results. Integration of an acquired company also may require management resources that otherwise would be available for ongoing development of our existing business. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, technology license or strategic alliance.

To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would result in dilution to our stockholders. If the price of our equity is low or volatile, we may not be able to acquire other companies. Alternatively, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us.

If a natural or man-made disaster strikes our manufacturing facilities, we will be unable to manufacture our products for a substantial amount of time and our sales will decline.

We manufacture products in our two manufacturing facilities located in San Diego, California. These facilities and the manufacturing equipment we use to produce our products would be costly to replace and could require substantial lead time to repair or replace. Our facilities may be harmed by natural or man-made

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disasters, including, without limitation, earthquakes and fires, and in the event they are affected by a disaster, we would be forced to rely on third-party manufacturers. In the event of a disaster, we may lose customers and we may be unable to regain those customers thereafter. Although we possess insurance for damage to our property and the disruption of our business from casualties, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

If we use biological and hazardous materials in a manner that causes injury or violates laws, we may be liable for damages.

Our research and development activities and our manufacturing activities involve the controlled use of infectious diseases, potentially harmful biological materials, as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury, and we could be held liable for damages that result from any contamination or injury. In addition, we are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The damages resulting from any accidental contamination and the cost of compliance with environmental laws and regulations could be significant.

The anti-takeover provisions of our certificate of incorporation and by-laws, provisions of Delaware law and our rights plan could delay or prevent a change of control that our stockholders may favor.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger or other change of control that stockholders may consider favorable or may impede the ability of the holders of our common stock to change our management. The provisions of our amended and restated certificate of incorporation and amended and restated bylaws, among other things: