MANNKIND CORP
Form 424B5
December 07, 2006

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This filing is made pursuant to Rule 424(b)(5)
Under the Securities Act of 1933
In connection with Registration Nos. 333-138373 and 333-139154

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 7, 2006)

20,000,000 Shares

MannKind Corporation
Common Stock

We are offering 20,000,000 shares of our common stock to be sold in this offering.

Our common stock is quoted on the Nasdaq Global Market under the symbol MNKD. On December 6, 2006, the last reported sale price for our common stock was $17.42 per share.

As part of this offering, the underwriters are selling an aggregate of 5,776,000 shares of our common stock to certain of our officers and directors, including our chairman, chief executive officer and principal stockholder, Alfred E. Mann. The underwriters will not receive any underwriting discount with respect to these shares.

In addition, concurrently with this offering of our common stock, we are offering $100,000,000 principal amount of 3.75% Senior Convertible Notes due 2013 (or $115,000,000 principal amount of notes if the underwriters exercise their over-allotment option in full) in a public offering pursuant to a separate prospectus supplement. This common stock offering is not contingent upon the note offering and the note offering is not contingent upon this common stock offering.

Investing in our common stock involves certain risks. See Risk Factors beginning on page S-7 of this prospectus supplement and incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Per Share	Total
Public offering price	$ 17.420	$ 348,400,000
Underwriting discount[(1)]	$ 0.871	$ 12,389,104
Proceeds before expenses, to us, from shares sold to the public	$ 16.549	$ 235,392,976
Proceeds before expenses, to us, from shares sold to our officers and directors	$ 17.420	$ 100,617,920

(1) The underwriters will not receive any underwriting discount on the sale of our shares of common stock to our officers and directors.

We have granted the underwriters an option to purchase up to an additional 3,000,000 shares for a period of 30 days to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

JPMorgan **Merrill Lynch & Co.**

Co-Managers

Wachovia Securities

CIBC World Markets

Leerink Swann & Company

The date of this prospectus supplement is December 7, 2006.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus that we authorize to be distributed to you. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus is accurate only as of the date on those respective

documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus when making your investment decision. You should also read and consider the information in the documents we have referred you to in the sections of the prospectus entitled Where You Can Find More Information and Incorporation by Reference.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. This prospectus supplement provides you with the specific details regarding this offering, including the number of shares to be offered, the price per share, and the risks of investing in our common stock. The accompanying prospectus provides you with more general information, some of which does not apply to the offering of our common stock. To the extent information in this prospectus supplement is inconsistent with the accompanying prospectus or any of the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, you should rely on this prospectus supplement. You should read and consider the information in this prospectus supplement, the accompanying prospectus and any free writing prospectus, together with the additional information described under the headings Where You Can Find More Information and Incorporation by Reference in the accompanying prospectus.

This prospectus supplement and the accompanying prospectus have not been approved by the Financial Services Authority. The notes may not be offered or sold to any person in the United Kingdom except where the offer is exempt from the general prohibition against the offer of securities to the public under section 85 of the Financial Services and Markets Act 2000, or FMSA, by virtue of one or more of the criteria set out in section 86 of FMSA.

This prospectus supplement and the accompanying prospectus is directed only at (i) persons outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments and who are investment professionals within the meaning of Article 19(5) of FMSA (Financial Promotion) Order 2005 of the United Kingdom (the Financial Promotion Order), (iii) persons who fall within Article 49(2)(a) through (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order, or (iv) any other persons to whom this prospectus supplement and the accompanying prospectus for the purposes of Section 21 of FSMA can otherwise lawfully be made (all such persons together being referred to as Relevant Persons), and must not be acted on or relied upon by persons other than Relevant Persons.

Unless the context otherwise requires, references to MannKind or the company, we, us, and our in this prospectu supplement and the accompanying prospectus mean MannKind Corporation and its wholly owned subsidiary.

Technosphere® and MedTone® are registered trademarks of MannKind Corporation. We have also applied for or registered company trademarks in other jurisdictions, including Europe and Japan. This prospectus supplement also include references to registered service marks and trademarks of other entities.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement. This summary does not contain all the information that you should consider before investing in our common stock. You should read the entire prospectus supplement, the accompanying prospectus and any free writing prospectus carefully, including Risk Factors, the financial statements and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus before making an investment decision. This prospectus supplement contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors described under the Risk Factors section and elsewhere in this prospectus supplement and in the risk factors set forth under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005 and each of our Quarterly Reports on Form 10-Q for the periods ended March 31, 2006, June 30, 2006 and September 30, 2006, and elsewhere in the documents incorporated by reference.

MannKind Corporation

Overview

MannKind Corporation is a biopharmaceutical company focused on the discovery, development and commercialization of therapeutic products for diseases such as diabetes and cancer. Our lead investigational product candidate, the Technosphere Insulin System, is currently in Phase 3 clinical trials in the United States, Europe and Latin America to study its safety and efficacy in the treatment of diabetes. This therapy consists of a proprietary dry powder formulation of insulin that is inhaled into the deep lung using our proprietary inhaler. We believe that the performance characteristics, unique kinetics, convenience and ease of use of the Technosphere Insulin System may have the potential to change the way diabetes is treated. According to the Centers for Disease Control, diabetes affects approximately 20.8 million patients in the United States. Furthermore, we believe that not one diabetes drug is included among the top 20 best-selling drugs in the United States. We believe there is a large unmet medical need to treat diabetes patients with a convenient and effective insulin regimen.

We believe our Technosphere Insulin System will address some of the shortcomings of traditional insulin therapies. In particular, we have observed in our clinical trials to date that the Technosphere Insulin System produces a profile of insulin levels in the bloodstream that approximates the insulin profile normally seen in healthy individuals immediately following the beginning of a meal, but which is absent in patients with diabetes. Specifically, Technosphere Insulin is rapidly absorbed into the bloodstream following inhalation, reaching peak levels within 12 to 14 minutes. As a result of this rapid onset of action, most of the glucose-lowering activity of Technosphere Insulin occurs within the first three hours of administration which is generally when glucose becomes available from a meal instead of the much longer duration of action observed when insulin is injected subcutaneously. We believe that the relatively short duration of action of Technosphere Insulin reduces the need for patients to snack between meals in order to manage ongoing blood glucose excursions. Indeed, in our clinical trials, we have observed that patients using Technosphere Insulin have achieved significant reductions in post-meal glucose excursions and significant improvements in overall glucose control, as measured by decreases in glycosylated hemoglobin, or HbA1c, levels, without the weight gain typically associated with insulin therapy.

In our clinical trials to date, we have observed no difference in pulmonary function between patients treated with Technosphere Insulin and patients treated with standard diabetes care. However, the longest study that we have completed so far is a six-month trial. In September 2006, we completed patient enrollment in a pivotal, two-year, Phase 3, safety study of Technosphere Insulin that will compare the pulmonary function of diabetes patients

randomized to either Technosphere Insulin or standard diabetes care. We are continuing to enroll patients in three other major Phase 3 clinical trials, two of which are pivotal efficacy trials. Based on our discussions with the Food and Drug Administration, or FDA, we plan to accumulate two years of controlled safety data before we file a new drug application for the Technosphere Insulin System. We anticipate that our entire clinical trial program, including several special population studies, will involve more

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than 4,500 patients. Larger populations and longer durations of exposure may be necessary depending on the safety profile of our product.

Our Technosphere Insulin System utilizes our proprietary Technosphere formulation technology, which is based on a class of organic molecules that are designed to self-assemble into small particles onto which drug molecules can be loaded. In October 2006, we filed an investigational new drug application, or IND, in respect of our cancer immunotherapy program. This IND has received FDA clearance and we are also developing additional Technosphere-based products for the delivery of other drugs. We plan to initiate Phase 1 clinical trials of a therapeutic cancer vaccine by the end of 2006.

We are a development stage enterprise and have incurred significant losses since our inception in 1991. As of September 30, 2006, we have incurred a cumulative net loss of $716.6 million. To date, we have not generated any product revenues and have funded our operations primarily through the sale of equity securities.

We do not anticipate sales of any product prior to regulatory approval and commercialization of our Technosphere Insulin System. We currently do not have the required approvals to market any of our product candidates, and we may not receive any approvals. We may not be profitable even if we succeed in commercializing any of our product candidates. We expect to make substantial and increasing expenditures and to incur additional operating losses for at least the next several years as we:

- continue the clinical development and commercialization of our Technosphere Insulin System for the treatment of diabetes;
- expand our manufacturing operations for our Technosphere Insulin System to meet our currently anticipated commercial production needs;
- expand our other research, discovery and development programs;
- expand our proprietary Technosphere platform technology and develop additional applications for the pulmonary delivery of other drugs; and
- enter into sales and marketing collaborations with other companies, if available on commercially reasonable terms, or develop these capabilities ourselves.

Our business is subject to significant risks, including but not limited to the risks inherent in our ongoing clinical trials and the regulatory approval process, the results of our research and development efforts, competition from other products and technologies and uncertainties associated with obtaining and enforcing patent rights.

Recent Developments

On September 16, 2006, we announced the results of a Phase 3 clinical study of Technosphere Insulin in patients with type 2 diabetes. This study was designed to evaluate whether our Technosphere Insulin System demonstrated similar safety and efficacy compared to patients treated with insulin aspart, an injected rapid-acting insulin analog, or RAA. The study included 308 patients with type 2 diabetes who where randomized to receive either Technosphere Insulin or RAA at meal times, in each case together with insulin glargine, a long-acting insulin, as basal insulin. After six months of treatment, both patient groups achieved statistically significant reductions in HbA1c levels, with the Technosphere Insulin patient group achieving an average 1.05% reduction and the injected RAA patient group achieving an average 1.30% reduction. Significantly fewer patients experienced hypoglycemia in the Technosphere Insulin patient group than in the injected RAA patient group. Additionally, after six months of treatment, the

Technosphere Insulin patient group experienced average weight loss of 1.7 pounds compared with the injected RAA patient group, which experienced average weight gain of 0.5 pounds. Pulmonary function did not differ between the two patient groups after six months of treatment and after a six-month withdrawal period. These results are consistent with our previous studies on Technosphere Insulin that demonstrated improvement in glycemic control with no effect on lung function.

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Company Information

We were incorporated in the State of Delaware on February 14, 1991. Our principal executive offices are located at 28903 North Avenue Paine, Valencia, California 91355, and our telephone number at that address is (661) 775-5300. MannKind Corporation and the MannKind Corporation logo are our service marks. Our website address is http://www.mannkindcorp.com. The information contained in, and that can be accessed through, our website is not incorporated into and does not form a part of this prospectus.

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THE OFFERING

Common stock offered by us in this offering	20,000,000 shares
Common stock to be outstanding after this offering	69,895,691 shares
Use of proceeds	We intend to use the net proceeds to us from this offering and the concurrent note offering to fund the costs of our clinical trials programs and other research and development activities, to expand our manufacturing operations, both on-going and planned, and for general corporate purposes, including working capital and repayment of $70.0 million in principal amount of indebtedness, plus accrued interest, owed to Alfred E. Mann pursuant to an outstanding note. We may also use a portion of the net proceeds to in-license, invest in or acquire businesses or technologies that we believe are complementary to our own, although we have no current plan, commitments or agreements with respect to any acquisitions as of the date of this prospectus supplement. This offering is not contingent on the concurrent note offering. See Use of Proceeds.
Nasdaq Global Market Symbol	MNKD
Risk factors	See Risk Factors beginning on page S-7 for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Transfer Agent	Mellon Investor Services

The number of shares of our common stock to be outstanding immediately after the closing of this offering is based on 49,895,691 shares of our common stock outstanding as of September 30, 2006, but excludes:

- an aggregate of 5,891,800 shares of our common stock issuable upon exercise of stock options outstanding as of September 30, 2006, having a weighted average exercise price of $13.46 per share, of which options to purchase 2,604,125 shares were exercisable as of that date at a weighted average exercise price of $12.46 per share;
- an aggregate of 3,026,659 shares of common stock reserved for issuance upon the exercise of warrants outstanding as of September 30, 2006, with a weighted average exercise price of $12.23 per share, all of which are exercisable as of that date;
- an aggregate of 823,102 of our common stock issuable upon vesting of restricted stock units as of September 30, 2006, granted under our 2004 Equity Incentive Plan;
- an aggregate of 6,300,143 shares of our common stock reserved for future issuance under our 2004 Equity Incentive Plan, 2004 Non-Employee Directors Stock Option Plan and 2004 Employee Stock Purchase Plan as of September 30, 2006; and

shares of common stock reserved for issuance upon conversion of the convertible notes concurrently being offered by us in connection with our note offering.

Unless otherwise noted, the information in this prospectus supplement assumes that the underwriters over-allotment option will not be exercised.

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Sale of Common Stock in this Offering to Certain of Our Officers and Directors

As part of this common stock offering, the underwriters are selling 5,750,000 shares to our chairman, chief executive officer and principal stockholder, Alfred E. Mann, 3,000 shares to our president and chief operating officer, Hakan S. Edstrom, and 23,000 shares to a member of our board of directors, Kent Kresa. The underwriters will not receive any underwriting discount with respect to these shares.

Concurrent Convertible Note Offering

Concurrently with this offering of our common stock, we are offering $100.0 million principal amount of 3.75% Senior Convertible Notes due 2013 (or $115.0 million principal amount of notes if the underwriters exercise their over-allotment option in full) in a public offering pursuant to a separate prospectus supplement. We refer to that offering herein as the note offering. This common stock offering is not contingent upon the note offering and the note offering is not contingent upon this common stock offering. For additional details regarding the note offering, see Concurrent Note Offering.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risk factors described below and all other information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest in our securities. If any of the following risks actually occur, they may materially harm our business, financial condition, operating results and cash flow. As a result, the market price of our common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties that are not yet identified or that we think are immaterial may also materially harm our business, operating results and financial condition and could result in a complete loss of your investment.

Certain risks related to regulatory approvals

Our product candidates must undergo rigorous preclinical and clinical testing and we must obtain regulatory approvals, which could be costly and time-consuming and subject us to unanticipated delays or prevent us from marketing any products.

Our research and development activities, as well as the manufacturing and marketing of our product candidates, including our Technosphere Insulin System, are subject to regulation, including regulation for safety, efficacy and quality, by the FDA in the United States and comparable authorities in other countries. FDA regulations and the regulation of comparable foreign regulatory authorities are wide-ranging and govern, among other things:

product design, development, manufacture and testing;

product labeling;

product storage and shipping;

pre-market clearance or approval;

advertising and promotion; and

product sales and distribution.

Clinical testing can be costly and take many years, and the outcome is uncertain and susceptible to varying interpretations. We expect, based on our discussions with the FDA and on our understanding of the interactions between the FDA and other pharmaceutical companies developing inhaled insulin delivery systems, that we will need safety data covering at least two years from patients treated with our Technosphere Insulin System and that we must complete a two-year carcinogenicity study and an additional six-month carcinogenicity study of Technosphere Insulin in rodents to obtain approval, among other requirements. We cannot be certain when or under what conditions we will undertake further clinical trials. The clinical trials of our product candidates may not be completed on schedule, the FDA or foreign regulatory agencies may order us to stop or modify our research, or these agencies may not ultimately approve any of our product candidates for commercial sale. The data collected from our clinical trials may not be sufficient to support regulatory approval of our various product candidates, including our Technosphere Insulin System. Even if we believe the data collected from our clinical trials are sufficient, the FDA has substantial discretion in the approval process and may disagree with our interpretation of the data. For example, even if we obtain statistically significant results with respect to the primary endpoint in a pivotal clinical study (102) of the Technosphere Insulin System, the FDA may deem the results uninterpretable because of issues related to the

open-label, non-inferiority design of the study. Our failure to adequately demonstrate the safety and efficacy of any of our product candidates would delay or prevent regulatory approval of our product candidates, which could prevent us from achieving profitability.

The requirements governing the conduct of clinical trials and manufacturing and marketing of our product candidates, including our Technosphere Insulin System, outside the United States vary widely from country to country. Foreign approvals may take longer to obtain than FDA approvals and can require, among other things, additional testing and different clinical trial designs. Foreign regulatory approval processes include all of the

risks associated with the FDA approval processes. Some of those agencies also must approve prices of the products for government reimbursement. Approval of a product by the FDA does not ensure approval of the same product by the health authorities of other countries. In addition, changes in regulatory policy in the United States or in foreign countries for product approval during the period of product development and regulatory agency review of each submitted new application may cause delays or rejections.

The process of obtaining FDA and other required regulatory approvals, including foreign approvals, is expensive, often takes many years and can vary substantially based upon the type, complexity and novelty of the products involved. We are not aware of any precedent for the successful commercialization of products based on our technology. On January 26, 2006, the FDA approved the first inhaled insulin product, Exubera. This may impact the development and registration of our Technosphere Insulin System in many ways, including: the approval of Exubera may increase the difficulty of enrolling patients in our clinical trials; Exubera may be viewed as standard of care by the FDA and used as a reference for the safety/efficacy evaluations of our Technosphere Insulin System; and the approval standards set for Exubera may be applied to other products that follow including our Technosphere Insulin System. The FDA has advised us that it will regulate our Technosphere Insulin System as a combination product because of the complex nature of the system that includes the combination of a new drug (Technosphere Insulin) and a new medical device (the MedTone inhaler used to administer the insulin). The FDA indicated that the review of a future drug marketing application for our Technosphere Insulin System will involve three separate review groups of the FDA: (1) the Metabolic and Endocrine Drug Products Division; (2) the Pulmonary Drug Products Division; and (3) the Center for Devices and Radiological Health within the FDA that reviews medical devices. We currently understand that the Metabolic and Endocrine Drug Products Division will be the lead group and will obtain consulting reviews from the other two FDA groups. The FDA has not made an official final decision in this regard, however, and we can make no assurances at this time about what impact FDA review by multiple groups will have on the review and approval of our product or whether we are correct in our understanding of how the Technosphere Insulin System will be reviewed and approved.

Also, questions that have been raised about the safety of marketed drugs generally, including pertaining to the lack of adequate labeling, may result in increased cautiousness by the FDA in reviewing new drugs based on safety, efficacy, or other regulatory considerations and may result in significant delays in obtaining regulatory approvals. Such regulatory considerations may also result in the imposition of more restrictive drug labeling or marketing requirements as conditions of approval, which may significantly affect the marketability of our drug products. FDA review of our Technosphere Insulin System as a combination product therapy may lengthen the product development and regulatory approval process, increase our development costs and delay or prevent the commercialization of our Technosphere Insulin System.

We are developing our Technosphere Insulin System as a new treatment for diabetes utilizing unique, proprietary components. As a combination product, any changes to either the MedTone inhaler, the Technosphere material or the insulin, including new suppliers, could possibly result in FDA requirements to repeat certain clinical studies. This means, for example, that switching to an alternate delivery system could require us to undertake additional clinical trials and other studies, which could significantly delay the development and commercialization of our Technosphere Insulin System. Our product candidates that are currently in development for the treatment of cancer also face similar obstacles and costs.

We currently expect that our inhaler will be reviewed for approval as part of the New Drug Application, or NDA, for our Technosphere Insulin System. No assurances exist that we will not be required to obtain separate device clearances or approval for use of our inhaler with our Technosphere Insulin System. This may result in our being subject to medical device review user fees and to other device requirements to market our inhaler and may result in significant delays in commercialization. Even if the device component is approved as part of our NDA for the Technosphere Insulin System, numerous device regulatory requirements still apply to the device part of the

drug-device combination.

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Risks related to our common stock and this offering

Our management will have broad discretion in how we use the net proceeds of this offering and the note offering.

We have not determined the specific allocation of the net proceeds from this offering and the concurrent note offering. Our management will have broad discretion over the use and investment of the net proceeds, and, accordingly, investors in this offering will need to rely upon the judgment of our management with respect to the use of proceeds, with only limited information concerning management s specific intentions. Our management may spend a portion or all of the new proceeds in ways that our securityholders may not desire or that may not yield a favorable return. The failure of our management to apply the net proceeds from this offering and the concurrent note offering effectively could harm our business, financial condition and results of operations.

Our stock price is volatile.

The stock market, particularly in recent years, has experienced significant volatility particularly with respect to pharmaceutical and biotechnology stocks, and this trend may continue. The volatility of pharmaceutical and biotechnology stocks often does not relate to the operating performance of the companies represented by the stock. Our business and the market price of our common stock may be influenced by a large variety of factors, including:

- the progress and results of our clinical trials;
- announcements by us or our competitors concerning their clinical trial results, acquisitions, strategic alliances, technological innovations and newly approved commercial products;
- the availability of critical materials used in developing and manufacturing our Technosphere Insulin System or other product candidates;
- developments or disputes concerning our patents or proprietary rights;
- developments in our litigation with our former Chief Medical Officer;
- the expense and time associated with, and the extent of our ultimate success in, securing regulatory approvals;
- changes in securities analysts estimates of our financial and operating performance;
- general market conditions and fluctuations for emerging growth and pharmaceutical market sectors;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- discussion of our Technosphere Insulin System, our other product candidates, competitors products, or our stock price by the financial and scientific press, the healthcare community and online investor communities such as chat rooms; and
- general economic, political or stock market conditions.

Any of these risks, as well as other factors, could cause the market price of our common stock to decline.

If other biotechnology and biopharmaceutical companies or the securities markets in general encounter problems, the market price of our common stock could be adversely affected.

Public companies in general and companies included on the Nasdaq Global Market in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. There has been particular volatility in the market prices of securities of biotechnology and other life sciences companies, and the market prices of these companies have often fluctuated because of problems or successes in a given market segment or because investor interest has shifted to other segments. These broad market and industry factors may cause the market price of our common stock to

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decline, regardless of our operating performance. We have no control over this volatility and can only focus our efforts on our own operations, and even these may be affected due to the state of the capital markets.

In the past, following periods of large price declines in the public market price of a company s securities, securities class action litigation has often been initiated against that company. Litigation of this type could result in substantial costs and diversion of management s attention and resources, which would hurt our business. Any adverse determination in litigation could also subject us to significant liabilities.

Our chairman, chief executive officer and principal stockholder can individually control our direction and policies, and his interests may be adverse to the interests of our other stockholders. After his death, his stock will be left to his funding foundations for distribution to various charities, and we cannot assure you of the manner in which those entities will manage their holdings.

Alfred E. Mann has been our primary source of financing to date. At September 30, 2006, Mr. Mann beneficially owned approximately 48.9% of our outstanding shares of capital stock. Members of Mr. Mann s family beneficially owned at least an additional 2.0% of our outstanding shares of common stock, although Mr. Mann does not have voting or investment power with respect to these shares. In addition, Mr. Mann is purchasing 5,750,000 shares of our common stock in this offering. By virtue of his holdings, Mr. Mann can and will continue to be able to effectively control the election of the members of our board of directors, our management and our affairs and prevent corporate transactions such as mergers, consolidations or the sale of all or substantially all of our assets that may be favorable from our standpoint or that of our other stockholders or cause a transaction that we or our other stockholders may view as unfavorable.

Subject to compliance with federal and state securities laws and the lockup restrictions described in Underwriting No Sales of Similar Securities, Mr. Mann is free to sell the shares of our stock he holds at any time. Upon his death, we have been advised by Mr. Mann that his shares of our capital stock will be left to the Alfred E. Mann Medical Research Organization, or AEMMRO, and AEM Foundation for Biomedical Engineering, or AEMFBE, not-for-profit medical research foundations that serve as funding organizations for Mr. Mann s various charities, including the Alfred Mann Foundation, or AMF, and the Alfred Mann Institutes at the University of Southern California and at the Technion-Israel Institute of Technology, and that may serve as funding organizations for any other charities that he may establish. The AEMMRO is a membership foundation consisting of six members, including Mr. Mann, four of his children and Dr. Joseph Schulman, the director of AMF. The AEMFBE is a membership foundation consisting of five members, including Mr. Mann and the same four of his children. Although we understand that the members of AEMMRO and AEMFBE have been advised of Mr. Mann s objectives for these foundations, once Mr. Mann s shares of our capital stock become the property of the foundations, we cannot assure you as to how those shares will be distributed or how they will be voted.

The future sale of our common stock could negatively affect our stock price.

As of September 30, 2006, we had approximately 49.9 million shares of common stock outstanding. Substantially all of these shares are available for public sale, subject in some cases to volume and other limitations or delivery of a prospectus. If our common stockholders sell substantial amounts of common stock in the public market, or the market perceives that such sales may occur, the market price of our common stock may decline. Furthermore, if we were to include in a company-initiated registration statement shares held by our stockholders pursuant to the exercise of their registrations rights, the sale of those shares could impair our ability to raise needed capital by depressing the price at which we could sell our common stock.

In addition, we will need to raise substantial additional capital in the future to fund our operations. If we raise additional funds by issuing equity securities, the market price of our common stock may decline and our existing

stockholders may experience significant dilution.

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Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

We are incorporated in Delaware. Certain anti-takeover provisions of Delaware law and our certificate of incorporation and amended and restated bylaws, as currently in effect, may make a change of control of our company more difficult, even if a change in control would be beneficial to our stockholders. Our anti-takeover provisions include provisions such as a prohibition on stockholder actions by written consent, the authority of our board of directors to issue preferred stock without stockholder approval, and supermajority voting requirements for specified actions. In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits stockholders owning 15% or more of our outstanding voting stock from merging or combining with us in certain circumstances. These provisions may delay or prevent the acquisition of us, even if the acquisition may be considered beneficial by some of our stockholders. In addition, they may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

Because we do not expect to pay dividends in the foreseeable future, you must rely on stock appreciation for any return on your investment.

We have paid no cash dividends on any of our capital stock to date, and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future, and payment of cash dividends, if any, will also depend on our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Furthermore, we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends. Accordingly, the success of your investment in our common stock will likely depend entirely upon any future appreciation. There is no guarantee that our common stock will appreciate in value after the offering or even maintain the price at which you purchased your shares, and you may not realize a return on your investment in our common stock.

You will experience immediate dilution in the book value per share of the common stock you purchase.

Since the price per share of our common stock being offered is substantially higher than the book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on the public offering price of $17.42 per share, if you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of $11.73 per share in the net tangible book value of the common stock. See the section entitled Dilution below for a more detailed discussion of the dilution you will incur if you purchase common stock in this offering.

A substantial number of shares of our outstanding common stock may be sold in this offering, which could cause the price of our common stock to decline.

Pursuant to this offering, we will sell, assuming the underwriter s option to purchase up to 3,000,000 additional shares from us is exercised in full, 23,000,000 shares, or approximately 46.1%, of our outstanding common stock as of September 30, 2006. This sale and any future sales of a substantial number of shares of our common stock in the public market, or the perception that such sales may occur, could adversely affect the price of our common stock. We cannot predict the effect, if any, that market sales of those shares of common stock or the availability of those shares of common stock for sale will have on the market price of our common stock.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, including the documents that we incorporate by reference herein and therein, contain statements that are not strictly historical in nature and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are subject to the safe harbor created by Section 27A of the Securities Act and Section 21E of the Exchange Act and may include, but are not limited to, statements about:

- the progress or success of our research, development and clinical programs;
- the timing of completion of enrollment in our clinical trials, the timing of the interim analyses and the timing or success of the commercialization of our Technosphere Insulin System, or any other products or therapies that we may develop;
- our ability to market, commercialize and achieve market acceptance for our Technosphere Insulin System, or any other products or therapies that we may develop;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our estimates for future performance; our estimates regarding anticipated operating losses, future revenues, capital requirements and our needs for additional financing;
- scientific studies and the conclusions we draw from them; and
- our ability to successfully enter into strategic business collaborations.

In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, goal, intends, may, plans, potential, predicts, projects, should, will, would, the negativ words or similar expressions intended to identify forward-looking statements. These statements reflect our views as of the date on which they were made with respect to future events and are based on assumptions and subject to risks and uncertainties. The underlying information and expectations are likely to change over time. Given these uncertainties, you should not place undue reliance on these forward-looking statements as actual events or results may differ materially from those projected in the forward-looking statements due to various factors, including, but not limited to, those set forth under the heading Risk Factors in this prospectus supplement, in the accompanying prospectus and in our SEC filings. These forward-looking statements represent our estimates and assumptions only as of the date of the document containing the applicable statement.

You should rely only on the information contained, or incorporated by reference, in this prospectus supplement, the accompanying prospectus, the registration statement of which this prospectus supplement is a part, the documents incorporated by reference herein, and any applicable prospectus supplement and understand that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in the foregoing documents by these cautionary statements. Unless required by law, we undertake no obligation to update or revise any forward-looking statements to reflect new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements. Before deciding to purchase our securities, you should carefully consider the risk factors

discussed here or incorporated by reference, in addition to the other information set forth in this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference.

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USE OF PROCEEDS

We estimate the net proceeds to us from the sale of the common stock will be approximately $335.8 million, based on the public offering price of $17.42 per share (or approximately $385.4 million if the underwriters exercise their over-allotment option in full), after payment of the underwriting discount and estimated expenses of this offering. Of the 20,000,000 shares of our common stock being sold in this common stock offering, the underwriters will not receive any underwriting discount with respect to the 5,776,000 shares being sold to certain of our officers and directors. We estimate that the net proceeds from the sale of the notes in the concurrent note offering will be approximately $96.8 million (or $111.3 million if the underwriters exercise their over-allotment option in full), after payment of the underwriting discount and estimated expenses of the offering.

We intend to use the net proceeds to us from this offering and of the concurrent note offering to fund the costs of our clinical trials programs and other research and development activities, to expand our manufacturing operations, both on-going and planned, and for general corporate purposes, including working capital and repayment of $70.0 million in principal amount of indebtedness, plus accrued interest, owed to Alfred E. Mann pursuant to an outstanding note. This indebtedness accrues interest at the lesser of London Interbank Offered Rate plus 3% per annum and the maximum rate permissible by law, and matures one year from the date of each advance. We may also use a portion of the net proceeds to in-license, invest in or acquire businesses or technologies that we believe are complementary to our own, although we have no current plan, commitments or agreements with respect to any acquisitions as of the date of this prospectus supplement. Pending these uses, we intend to invest the net proceeds in investment-grade, interest-bearing securities. As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the net proceeds to us from these offerings. Accordingly, we will retain broad discretion over the use of these proceeds.

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CAPITALIZATION

The following table shows our cash and cash equivalents and marketable securities and capitalization as of September 30, 2006:

- on an actual basis;
- on an as-adjusted basis to give effect to our issuance and sale of 20,000,000 shares of common stock in this offering at the public offering price of $17.42 per share, after deducting the underwriting discount and estimated offering expenses payable by us, and (ii) the (a) receipt by us of $20.0 million in cash that was borrowed pursuant to our loan arrangement with Alfred E. Mann after September 30, 2006 and (b) the repayment on the date of this offering of all amounts owed under our loan arrangement with Mr. Mann ($70.0 million in principal amount of indebtedness plus approximately $0.9 million in accrued interest); and
- on a pro forma as-adjusted basis to give effect to (i) both our issuance and sale of 20,000,000 shares of common stock in this offering at the public offering price of $17.42 per share and our concurrent issuance of $100.0 million aggregate principal amount of notes in the notes offering, after deducting the underwriting discounts and estimated offering expenses payable by us in connection with both offerings, and (ii) the (a) receipt by us of $20.0 million in cash that was borrowed pursuant to our loan arrangement with Alfred E. Mann after September 30, 2006 and (b) the repayment on the date of this offering of all amounts owed under our loan arrangement with Mr. Mann ($70.0 million in principal amount of indebtedness plus approximately $0.9 million in accrued interest).

This table should be read with our financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of September 30, 2006		
(in thousands, except for share and per share data)	**Actual**	**As-Adjusted (This Offering and Debt Repayment)[1]**	**Pro Forma As-Adjusted (Both Offerings and Debt Repayment)[1]**
Cash, cash equivalents and marketable securities	$ 50,093	$ 334,982	$ 431,771
Note payable to principal stockholder[2]	50,000		
Deferred compensation and other liabilities	24	24	24
Senior convertible notes			100,000
Stockholders equity:			
Undesignated preferred stock, $0.01 par value, 10,000,000 shares authorized; no shares issued or outstanding			
Common stock, $0.01 par value; 90,000,000 shares authorized; 49,895,691 shares issued and outstanding; 69,895,691 shares issued and outstanding as-adjusted; 69,895,691 shares issued and outstanding pro forma as-adjusted[1]	499	699	699
Additional paid-in capital	778,053	1,113,653	1,113,653

Deficit accumulated during the development stage	(716,581)	(716,581)	(716,581)
Total stockholders equity	61,971	397,771	