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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

☐ **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 0-32405

SEATTLE GENETICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**91-1874389**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

21823 30th Drive SE
Bothell, Washington 98021
(Address of principal executive offices, including zip code)

(Registrant's telephone number, including area code): (425) 527-4000

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of April 23, 2018, there were 158,224,428 shares of the registrant's common stock outstanding.

Seattle Genetics, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Seattle Genetics, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except par value)

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 186,890	$ 160,945
Short-term investments	213,026	252,226
Accounts receivable, net	118,579	84,774
Inventories	71,915	59,978
Prepaid expenses and other current assets	44,126	19,138
Total current assets	634,536	577,061
Property and equipment, net	103,489	103,756
In-process research and development	300,000	0
Goodwill	251,017	0
Other non-current assets	184,585	197,132
Total assets	$ 1,473,627	$ 877,949
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 132,246	$ 132,672
Current portion of deferred revenue	35,776	34,457
Total current liabilities	168,022	167,129
Long-term liabilities		
Deferred revenue, less current portion	23,387	30,618
Deferred rent and other long-term liabilities	2,881	2,633
Total long-term liabilities	26,268	33,251
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value, 5,000 shares authorized; none issued	0	0
Common stock, $0.001 par value, 250,000 shares authorized; 158,169 shares issued and outstanding at March 31, 2018 and 144,395 shares issued and outstanding at December 31, 2017	158	144
Additional paid-in capital	2,493,053	1,806,159
Accumulated other comprehensive income (loss)	(264)	63,836
Accumulated deficit	(1,213,610)	(1,192,570)
Total stockholders' equity	1,279,337	677,569
Total liabilities and stockholders' equity	$ 1,473,627	$ 877,949

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

Seattle Genetics, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2018	2017
Revenues		
Net product sales	$ 95,357	$ 70,321
Collaboration and license agreement revenues	29,559	21,830
Royalty revenues	15,674	16,980
Total revenues	140,590	109,131
Costs and expenses		
Cost of sales	10,358	7,481
Cost of royalty revenues	5,377	4,380
Research and development	152,502	118,184
Selling, general and administrative	66,182	38,404
Total costs and expenses	234,419	168,449
Loss from operations	(93,829)	(59,318)
Investment and other loss, net	(17,886)	(672)
Net loss	$(111,715)	$ (59,990)
Net loss per share—basic and diluted	$ (0.73)	$ (0.42)
Shares used in computation of per share amounts—basic and diluted	152,049	142,458
Comprehensive income (loss):		
Net loss	$(111,715)	$ (59,990)
Other comprehensive income (loss):		
Foreign currency translation loss	(8)	(2)
Unrealized gain on securities available for sale, net of tax	27	3,982
Total other comprehensive income	19	3,980
Comprehensive loss	$(111,696)	$ (56,010)

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

Seattle Genetics, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2018	2017
Operating activities		
Net loss	$(111,715)	$ (59,990)
Adjustments to reconcile net loss to net cash used by operating activities		
Share-based compensation	16,838	14,465
Depreciation and amortization	7,010	4,784
Amortization of premiums, accretion of discounts and loss on investments	(146)	1,836
Deferred rent and other long-term liabilities	248	(114)
Unrealized losses on equity securities	18,825	0
Changes in operating assets and liabilities		
Accounts receivable, net	(17,531)	(11,759)
Inventories	(11,937)	7,401
Prepaid expenses and other assets	(11,529)	445
Accounts payable and accrued liabilities	(28,877)	(18,544)
Deferred revenue	(8,350)	(2,068)
Net cash used by operating activities	(147,164)	(63,544)
Investing activities		
Purchases of securities	(62,628)	(208,370)
Proceeds from maturities of securities	120,022	182,700
Proceeds from sales of securities	48,469	60,056
Purchases of property and equipment	(4,673)	(14,583)
Acquisition of Cascadian Therapeutics, Inc., net of cash acquired	(598,151)	0
Net cash provided (used) by investing activities	(496,961)	19,803
Financing activities		
Net proceeds from issuance of common stock	658,165	0
Proceeds from exercise of stock options and employee stock purchase plan	11,905	10,835
Net cash provided by financing activities	670,070	10,835
Net increase (decrease) in cash and cash equivalents	25,945	(32,906)
Cash and cash equivalents at beginning of period	160,945	108,673
Cash and cash equivalents at end of period	$ 186,890	$ 75,767

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

Seattle Genetics, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements reflect the accounts of Seattle Genetics, Inc. and its wholly-owned subsidiaries (collectively "Seattle Genetics" or the "Company"). All intercompany transactions and balances have been eliminated. The Company acquired Cascadian Therapeutics, Inc., or Cascadian, in March 2018, as further described in Note 8. Management has determined that the Company operates in one segment: the development and sale of pharmaceutical products on its own behalf or in collaboration with others. Substantially all of the Company's assets and revenues are related to operations in the U.S.; however, the Company also has subsidiaries in Australia, Canada, Ireland, Luxembourg, Switzerland, and the United Kingdom.

The condensed consolidated balance sheet data as of December 31, 2017 were derived from audited financial statements not included in this quarterly report on Form 10-Q. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC, and generally accepted accounting principles in the United States of America, or GAAP, for unaudited condensed consolidated financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the Company's financial position and results of its operations, as of and for the periods presented.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of the Company's operations for the three month period ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year or any other interim period.

Non-cash investing activities

The Company had $2.3 million and $1.0 million of accrued capital expenditures as of March 31, 2018 and December 31, 2017, respectively. Accrued capital expenditures have been treated as a non-cash investing activity and, accordingly, have not been included in the statement of cash flows until such amounts have been paid in cash.

Investments

The Company adopted Accounting Standards Update entitled "ASU 2016-01, Financial Instruments: Overall" on January 1, 2018, which addressed certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including that changes in the fair value of equity securities be recorded in income or loss rather than accumulated other comprehensive income or loss in stockholders' equity. The Company used the modified retrospective method and recognized a $64.1 million cumulative effect of initially applying this ASU as an adjustment to the opening accumulated deficit at January 1, 2018. Accordingly, comparative information has not been adjusted and continues to be reported under previous accounting standards. The implementation of this standard increases the volatility of net income or loss to the extent that the Company continues to hold equity securities.

The Company invests primarily in debt securities. These debt securities are classified as available-for-sale, which are reported at estimated fair value with unrealized gains and losses included in accumulated other comprehensive income and loss in stockholders' equity. Realized gains, realized losses and declines in the value of investments judged to be other-than-temporary are included in investment and other loss, net. The cost of investments for purposes of computing realized and unrealized gains and losses is based on the specific identification method. Amortization of premiums and accretion of discounts on debt securities are included in investment and other loss, net. Interest and dividends earned on all securities are included in investment and other loss, net. The Company classifies investments in debt securities maturing within one year of the reporting date, or where management's intent is to use the investments to fund current operations or to make them available for current operations, as short-term investments. The Company also holds certain equity securities, which are reported at estimated fair value.

If the estimated fair value of a security is below its carrying value, the Company evaluates whether it is more likely than not that it will sell the security before its anticipated recovery in market value and whether evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. The Company also evaluates whether or not it intends to sell the investment. If the impairment is considered to be other-than-temporary, the security is written down to its estimated fair value. In addition, the Company considers whether credit losses exist for any securities. A credit loss exists if the present value of

cash flows expected to be collected is less than the amortized cost basis of the security. Other-than-temporary declines in estimated fair value and credit losses are charged against investment and other loss, net.

Business combinations, including acquired in-process research and development and goodwill

The Company accounts for business combinations using the acquisition method, recording the acquisition-date fair value of total consideration over the acquisition-date fair value of net assets acquired as goodwill.

Fair value is typically estimated using the present value of future discounted cash flows, an income approach. The significant estimates in the discounted cash flow model primarily include the discount rate, rates of future revenue growth and/or profitability of the acquired business, and working capital effects. The discount rate considers the relevant risk associated with business-specific characteristics and the uncertainty related to the ability to achieve the projected cash flows.

In-process research and development assets are accounted for as indefinite-lived intangible assets and maintained on the balance sheet until either the underlying project is completed or the asset becomes impaired. If the project is completed, the carrying value of the related intangible asset is amortized to cost of sales over the remaining estimated life of the asset beginning in the period in which the project is completed. If the asset becomes impaired or is abandoned, the carrying value of the related intangible asset is written down to its fair value and an impairment charge is recorded in the period in which the impairment occurs.

The Company evaluates indefinite-lived intangible assets and goodwill for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, the Company may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit (for goodwill) is less than its carrying value, the Company then would proceed with the quantitative impairment test to compare the fair value to the carrying value and recognize an impairment if the carrying value exceeds the fair value.

Acquisition-related costs, including banking, legal, accounting, valuation, and other similar costs, are expensed in the periods in which the costs are incurred. The results of operations of the acquired business are included in the consolidated financial statements from the acquisition date.

Long-term incentive plans

The Company has established Long-Term Incentive Plans, or LTIPs. The LTIPs provide eligible employees with the opportunity to receive performance-based incentive compensation, which may be comprised of cash, stock options, and/or restricted stock units. The payment of cash and the grant or vesting of equity are contingent upon the achievement of pre-determined regulatory milestones. The Company records compensation expense over the estimated service period for each milestone subject to the achievement of the milestone being considered probable in accordance with the provisions of ASC 450, Contingencies. At each reporting date, the Company assesses whether achievement of a milestone is considered probable and, if so, records compensation expense based on the portion of the service period elapsed to date with respect to that milestone, with a cumulative catch-up, net of estimated forfeitures.

During the three months ended March 31, 2018, an LTIP milestone was achieved related to the U.S. Food and Drug Administration, or FDA, approval of a label expansion in the U.S. for ADCETRIS, based on clinical trial data from the ECHELON-1 study. As of March 31, 2018, the estimated unrecognized compensation expense related to all LTIPs was $34.8 million. The total estimate of unrecognized compensation expense is expected to change in the future for several reasons, including the addition of more eligible employees or the addition, termination, or modification of an LTIP.

Revenue recognition

The Company adopted Accounting Standards Codification Topic 606—Revenue from Contracts with Customers, or Topic 606, on January 1, 2018, resulting in a change to its accounting policy for revenue recognition. The Company used the modified retrospective method and recognized the cumulative effect of initially applying Topic 606 as an adjustment to the opening accumulated deficit at January 1, 2018. Accordingly, comparative information has not been adjusted and continues to be reported under previous accounting standards. Refer to Note 2 for additional information.

The Company's revenues are comprised of ADCETRIS net product sales, amounts earned under its collaboration and licensing agreements and royalties. Revenue recognition occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services based on a short-term credit arrangement.

Net product sales

The Company sells ADCETRIS through a limited number of pharmaceutical distributors in the U.S. and Canada. Customers order ADCETRIS through these distributors, and the Company typically ships product directly to the customer. The delivery of ADCETRIS to the end-user site represents a single performance obligation for these transactions. The Company records product sales at the point in time when title and risk of loss pass, which generally occurs upon delivery of the product to the customer. The transaction price for product sales represents the amount the Company expects to receive, which is net of estimated government-mandated rebates and chargebacks, distribution fees, estimated product returns and other deductions. Accruals are established for

these deductions and actual amounts incurred are offset against applicable accruals. The Company reflects these accruals as either a reduction in the related account receivable from the distributor or as an accrued liability, depending on the nature of the sales deduction. Sales deductions are based on management's estimates that consider payor mix in target markets and experience to date. These estimates involve a substantial degree of judgment. The Company has applied a portfolio approach as a practical expedient for estimating net product sales from ADCETRIS.

Government-mandated rebates and chargebacks: The Company has entered into a Medicaid Drug Rebate Agreement, or MDRA, with the Centers for Medicare & Medicaid Services. This agreement provides for a rebate based on covered purchases of ADCETRIS. Medicaid rebates are invoiced to the Company by the various state Medicaid programs. The Company estimates Medicaid rebates using the most-likely-amount approach, based on a variety of factors, including its experience to date.

The Company has also completed a Federal Supply Schedule, or FSS, agreement under which certain U.S. government purchasers receive a discount on eligible purchases of ADCETRIS. In addition, the Company has entered into a Pharmaceutical Pricing Agreement with the Secretary of Health and Human Services, which enables certain entities that qualify for government pricing under the Public Health Services Act, or PHS, to receive discounts on their qualified purchases of ADCETRIS. Under these agreements, distributors process a chargeback to the Company for the difference between wholesale acquisition cost and the applicable discounted price. As a result of the Company's direct-ship distribution model, it can identify the entities purchasing ADCETRIS and this information enables the Company to estimate expected chargebacks for FSS and PHS purchases based on each entity's eligibility for the FSS and PHS programs. The Company also reviews historical rebate and chargeback information to further refine these estimates.

Distribution fees, product returns and other deductions: The Company's distributors charge a volume-based fee for distribution services that they perform for the Company. The Company allows for the return of product that is within 30 days of its expiration date or that is damaged. The Company estimates product returns based on its experience to date using the most-likely-amount approach. In addition, the Company considers its direct-ship distribution model, its belief that product is not typically held in the distribution channel, and the expected rapid use of the product by healthcare providers. The Company provides financial assistance to qualifying patients that are underinsured or cannot cover the cost of commercial coinsurance amounts through SeaGen Secure. SeaGen Secure is available to patients in the U.S. and its territories who meet various financial and treatment need criteria. Estimated contributions for commercial coinsurance under SeaGen Secure are deducted from gross sales and are based on an analysis of expected plan utilization. These estimates are adjusted as necessary to reflect the Company's actual experience.

Collaboration and license agreement revenues

The Company has collaboration and license agreements with a number of biotechnology and pharmaceutical companies. The Company's proprietary technology for linking cytotoxic agents to monoclonal antibodies called antibody-drug conjugates, or ADCs, is the basis for many of these collaboration and license agreements, including the ADC collaborations that the Company has entered into in the ordinary course of business, under which the Company grants its collaborators research and commercial licenses to the Company's technology and typically provides technology transfer services, technical advice, supplies and services for a period of time.

The Company's collaboration and license agreements include contractual milestones. Generally, the milestone events coincide with the progression of the collaborators' product candidates. These consist of development milestones (such as designation of a product candidate or initiation of preclinical studies and the initiation of phase 1, phase 2, or phase 3 clinical trials), regulatory milestones (such as the filing of regulatory applications for marketing approval), and commercialization milestones (such as first commercial sale in a particular market and product sales in excess of a pre-specified threshold). The Company's ADC collaborators are solely responsible for the development of their product candidates, and the achievement of milestones in any of the categories identified above is based solely on the collaborators' efforts. Since the Company does not take a substantive role or control the research, development or commercialization of any products generated by its ADC collaborators, the Company is not able to reasonably estimate when, if at all, any milestone payments or royalties may be payable to the Company by its ADC collaborators. As such, the milestone payments associated with its ADC collaborations involve a substantial degree of uncertainty and risk that they may never be received. In the case of the Company's ADCETRIS collaboration with Takeda Pharmaceutical Company Limited, or Takeda, the Company may be involved in certain development activities; however, the achievement of milestone events under the agreement is primarily based on activities undertaken by Takeda.

ADC collaborations are initially evaluated as to whether the intellectual property licenses granted by the Company represent distinct performance obligations. If they are determined to be distinct, the value of the intellectual property licenses would be recognized up-front while the research and development service fees would be recognized as the performance obligations are satisfied. Variable consideration is assessed at each reporting period as to whether it is not subject to significant future reversal and, therefore, should be included in the transaction price at the inception of the contract. If a contract includes a fixed or minimum amount of research and development support, this also would be included in the transaction price. Changes to ADC collaborations, such as the extensions of the research term or increasing the number of targets or technology covered under an existing agreement, are assessed for whether they represent a modification or should be accounted for as a new contract.

The Company has concluded that the license of intellectual property in its current ADC collaborations is not distinct from the perspective of its customers at the time of initial transfer, since the Company does not license intellectual property without related technology transfer and research and development support services. The Company's performance obligations under its collaborations include such things as providing intellectual property licenses, performing technology transfer, performing research and development consulting services, providing reagents, ADCs, and other materials, and notifying the customer of any enhancements to licensed technology or new technology that the Company discovers, among others. The Company determined its performance obligations under its current ADC collaborations as evaluated at contract inception were not distinct and represented a single performance obligation. Revenue is recognized using a proportional performance model, representing the transfer of goods or services as activities are performed over the term of the agreement. Upfront payments are also amortized to revenue over the performance period. Upfront payment contract liabilities resulting from the Company's collaborations do not represent a financing component as the payment is not financing the transfer of goods or services, and the technology underlying the licenses granted reflects research and development expenses already incurred by the Company.

When no performance obligations are required of the Company, or following the completion of the performance obligation period, such amounts are recognized as revenue upon transfer of control of the goods or services to the customer. Generally, all amounts received or due other than sales-based milestones and royalties are classified as collaboration and license agreement revenues. Sales-based milestones and royalties are recognized as royalty revenue in the period the related sale occurred.

The Company generally invoices its collaborators and licensees on a monthly or quarterly basis, or upon the completion of the effort or achievement of a milestone, based on the terms of each agreement. Deferred revenue arises from amounts received in advance of the culmination of the earnings process and is recognized as revenue in future periods as performance obligations are satisfied. Deferred revenue expected to be recognized within the next twelve months is classified as a current liability.

Royalty revenues and cost of royalty revenues

Royalty revenues primarily reflect amounts earned under the ADCETRIS collaboration with Takeda. These royalties include commercial sales-based milestones and sales royalties. Sales royalties are based on a percentage of Takeda's net sales of ADCETRIS, with rates that range from the mid-teens to the mid-twenties based on sales volume. Takeda bears a portion of third-party royalty costs owed on its sales of ADCETRIS. This amount is included in royalty revenues. Cost of royalty revenues reflects amounts owed to the Company's third-party licensors related to Takeda's sales of ADCETRIS. These amounts are recognized in the period in which the related sales by Takeda occur.

Recent accounting pronouncements not yet adopted

In February 2016, FASB issued an Accounting Standards Update entitled "ASU 2016-02, Leases." The standard requires entities to recognize in the consolidated balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The standard will become effective for the Company beginning January 1, 2019, with early adoption permitted. The Company is currently evaluating the guidance to determine the potential impact on its financial condition, results of operations and cash flows, and financial statement disclosures, and expects that the adoption of the standard will increase assets and liabilities related to the Company's operating leases in the consolidated balance sheets.

In June 2016, FASB issued an Accounting Standards Update entitled "ASU 2016-13, Financial Instruments: Credit Losses." The objective of the standard is to provide information about expected credit losses on financial instruments at each reporting date and to change how other-than-temporary impairments on investments securities are recorded. The standard will become effective for the Company beginning on January 1, 2020, with early adoption permitted. The Company is currently evaluating the guidance to determine the potential impact on its financial condition, results of operations and cash flows, and financial statement disclosures.

2. Revenue from contracts with customers

On January 1, 2018, the Company adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 were presented under Topic 606, while prior period amounts were not adjusted and reported under the accounting standards in effect for the prior periods. The Company recorded the following cumulative effect as of January 1, 2018, itemized here (in thousands) and further described below:

Collaboration and license agreement revenues	$10,282
Royalty revenues	22,230
Cost of royalty revenues	(5,955)
Accumulated deficit – (debit) credit	$26,557

Impact to net product sales

Topic 606 does not generally change the practice under which the Company recognizes product revenue from sales of ADCETRIS.

Impact to collaboration and license agreement revenues

The achievement of development milestones under the Company's collaborations will be recorded during the period their achievement becomes probable, which may result in earlier recognition as compared to previous accounting principles. Each of the Company's current ADC collaborations contain a single performance obligation under Topic 606.

The Takeda ADCETRIS collaboration is the only ongoing ADC collaboration that was significantly impacted by the adoption of Topic 606. The Takeda ADCETRIS collaboration provides for the global co-development of ADCETRIS and the commercialization of ADCETRIS by Takeda in its territory. Under this collaboration, the Company has retained commercial rights for ADCETRIS in the U.S. and its territories and in Canada, and Takeda has commercial rights in the rest of the world and pays the Company a royalty. The Company's performance obligations under the collaboration include providing intellectual property licenses, performing technology transfer, providing research and development services for co-funded activities, allowing access to data, submitting regulatory filings and other information for co-funded activities, and providing manufacturing support including supply of ADCETRIS drug components, finished ADCETRIS product, and know-how. The Company determined that its performance obligations under the collaboration as evaluated at contract inception were not distinct and represented a single performance obligation, and that the obligations for goods and services provided would be completed over the performance period of the agreement. Any payments received by the Company from Takeda, including the upfront payment, progress-dependent development and regulatory milestone payments, reimbursement for drug product supplied, and net development cost reimbursement payments, are recognized as revenue using a time-based proportional performance model over the ten-year development period (December 2009 through November 2019) of the collaboration, within collaboration and license agreement revenues. Updates to the Takeda ADCETRIS collaboration transaction price for variable consideration, such as approval of the co-development annual budget and binding production forecast, are considered at each reporting period as to whether they are not subject to significant future reversal. Shipments of drug supply that occur after the expiration of the drug supply agreement in September 2018 will be recorded as a separate performance obligation.

Impact to royalty revenues

Commercial sales-based milestones and sales royalties, primarily earned under the Takeda ADCETRIS collaboration, are recorded in the period of the related sales by Takeda, based on estimates if actual information is not yet available, rather than recording them as reported by the customer one quarter in arrears under previous accounting guidance. Takeda also bears a portion of third-party royalty costs owed on its sales of ADCETRIS which is included in royalty revenues.

Disaggregation of total revenues

The Company has one marketed product, ADCETRIS. Substantially all of the Company's product revenues are recorded in the U.S. Substantially all of the Company's royalty revenues are from its collaboration with Takeda. Collaboration and license agreement revenues by collaborator are summarized as follows (in thousands):

	Three months ended March 31, 2018
Takeda	$ 13,572
AbbVie	8,000
Other	7,987
Collaboration and license agreement revenues	$ 29,559

Contract balances and performance obligations

Under Topic 606, the Company recorded contract assets of $12.7 million and $15.8 million as of January 1, 2018 and March 31, 2018, respectively, related to the Takeda ADCETRIS collaboration. These were recorded in prepaid expenses and other current assets on the consolidated balance sheet. The increase from January 1 to March 31 was primarily due to updates to the Takeda ADCETRIS collaboration transaction price upon approval of the co-development annual budget and binding production forecast.

Contract liabilities consisted of deferred revenue, as presented on the consolidated balance sheet, as of March 31, 2018. Deferred revenue related to the Company's collaboration with Takeda was $58.3 million as of March 31, 2018 and will be recognized along with the remaining performance obligations over the remainder of the ten-year performance period ending November 2019. The Company recognized collaboration and license agreement revenues of $9.0 million during the three months ended March 31, 2018 that were included in the deferred revenue balance as of January 1, 2018.

Impacts to condensed consolidated financial statements as of and for the three months ended March 31, 2018 (in thousands)

	As reported	Adjustments	Balances without the adoption of Topic 606
Condensed Consolidated Balance Sheet data			
Assets			
Accounts receivable, net	$ 118,579	$ (9,535)	$ 109,044
Prepaid expenses and other current assets	44,126	(15,775)	28,351
Liabilities			
Current portion of deferred revenue	35,776	(1,578)	34,198
Deferred revenue, less current portion	23,387	(1,051)	22,336
Stockholders' equity			
Accumulated deficit	(1,213,610)	(22,681)	(1,236,291)
Condensed Consolidated Statements of Comprehensive Loss data			
Collaboration and license agreement revenues	$ 29,559	$ (2,864)	$ 26,695
Royalty revenues	15,674	7,318	22,992
Total revenues	140,590	4,454	145,044
Cost of royalty revenues	5,377	578	5,955
Net loss	(111,715)	3,876	(107,839)

3. Net loss per share

Basic and diluted net loss per share are computed by dividing net loss by the weighted average number of common shares outstanding during the period. The Company excluded all restricted stock units and options to purchase common stock from the calculation of basic and diluted net loss per share as such securities were anti-dilutive for all periods presented. The weighted-average number of restricted stock units and options to purchase common stock that have been excluded from the number of shares used to calculate basic and diluted net loss per share totaled 13,506,000 and 13,321,000 for the three months ended March 31, 2018 and 2017, respectively.

4. Common stock

In February 2018, the Company completed an underwritten public offering of 13,269,230 shares of its common stock at a public offering price of $52.00 per share. The offering resulted in net proceeds to the Company of $658.2 million, after deducting underwriting discounts, commissions, and other offering expenses. The Company used a majority of the proceeds to fund the acquisition of Cascadian.

5. Investments

As of December 31, 2017 and March 31, 2018, the Company held common stock of Immunomedics and Unum Therapeutics, Inc., or Unum, each holding purchased in connection with strategic collaborations with the respective company. The collaboration agreement with Immunomedics was subsequently terminated. The collaboration agreement with Unum provided that the Company purchase shares in a private placement concurrent with Unum's initial public offering. Unum's initial public offering was priced in March 2018 and closed in April 2018. As such, the Company reflected the shares on its consolidated balance sheet as of March 31, 2018. Prior to Unum's initial public offering, the Company accounted for its investment in Unum under the cost method of accounting. During the three months ended March 31, 2018, the Company recognized net losses from changes in the fair values of these equity securities of $18.8 million.

The Company's debt and equity securities consisted of the following (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
March 31, 2018				
U.S. Treasury securities (debt securities)	$213,285	$ 1	$ (260)	$213,026
Equity securities	100,882	79,409	(758)	179,533
Total	$314,167	$ 79,410	$ (1,018)	$392,559
Contractual maturities of debt securities (at date of purchase)				
Due in one year or less	$132,644			$132,587
Due in one to two years	80,641			80,439
Total	$213,285			$213,026
December 31, 2017				
U.S. Treasury securities (debt securities)	$252,511	$ 0	$ (285)	$252,226
Equity securities	90,882	97,476	0	188,358
Total	$343,393	$ 97,476	$ (285)	$440,584
Contractual maturities of debt securities (at date of purchase)				
Due in one year or less	$151,903			$151,842
Due in one to two years	100,608			100,384
Total	$252,511			$252,226

6. Fair value

The Company has certain assets that are measured at fair value on a recurring basis according to a fair value hierarchy that prioritizes the inputs, assumptions and valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The determination of a financial instrument's level within the fair value hierarchy is based on an assessment of the lowest level of any input that is significant to the fair value measurement. The Company considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value hierarchy of the Company's assets carried at fair value and measured on a recurring basis was as follows (in thousands):

	Fair value measurement using:			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
March 31, 2018				
Short-term investments—U.S. Treasury securities	$ 213,026	$ 0	$ 0	$213,026
Other non-current assets—equity securities	179,533	0	0	179,533
Total	$ 392,559	$ 0	$ 0	$392,559
December 31, 2017				
Short-term investments—U.S. Treasury securities	$ 252,226	$ 0	$ 0	$252,226
Other non-current assets—equity securities	188,358	0	0	188,358
Total	$ 440,584	$ 0	$ 0	$440,584

7. Inventories

The following table presents the Company's inventories of ADCETRIS (in thousands):

	March 31, 2018	December 31, 2017
Raw materials	$ 67,278	$ 52,398
Work in process	0	0
Finished goods	4,637	7,580
Total	$ 71,915	$ 59,978

The Company capitalizes ADCETRIS inventory costs. ADCETRIS inventory that is deployed into clinical, research or development use is charged to research and development expense when it is no longer available for use in commercial sales. The Company does not capitalize manufacturing costs for any of its product candidates.

8. Acquisition of Cascadian

In March 2018, the Company acquired all issued and outstanding shares of Cascadian, a clinical-stage biopharmaceutical company based in Seattle, Washington, for $10.00 per share in cash, or approximately $614.1 million (referred to as the Cascadian Acquisition), which was funded by an underwritten public offering as further described in Note 4. The Cascadian Acquisition expanded the Company's late-stage pipeline, providing global rights to tucatinib, an investigational oral tyrosine kinase inhibitor, or TKI, that is currently being evaluated in a phase 2 trial called HER2CLIMB for patients with HER2-positive (HER2+) metastatic breast cancer, including patients with or without brain metastases.

The Cascadian Acquisition was accounted for as a business combination. During the three months ended March 31, 2018, the Company incurred $8.5 million in acquisition-related costs, which were recorded in selling, general and administrative expenses.

The preliminary purchase price allocation of the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date was as follows (in thousands):

Cash and cash equivalents	$ 15,919
Short-term and long-term investments	66,491
Prepaid expenses and other assets	2,215
Property and equipment	566
In-process research and development	300,000
Goodwill	251,017
Accounts payable and accrued liabilities	(22,138)
Total purchase price	$614,070

The amount allocated to in-process research and development was based on the present value of future discounted cash flows, which was based on significant estimates. These estimates included the number of potential patients and market price of a future tucatinib-based regimen, costs required to conduct clinical trials and potentially commercialize tucatinib, as well as estimates for

probability of success and the discount rate. Goodwill primarily was attributed to tucatinib's potential application in other treatment settings, intangible assets that do not qualify for separate recognition, and synergies with the Company's existing pipeline and capabilities. Goodwill is not expected to be deductible for tax purposes. The amount allocated to goodwill is preliminary, since the acquisition accounting is not yet finalized as it relates to income taxes.

The financial information in the table below summarizes the combined results of operations of Seattle Genetics and Cascadian on a pro forma basis, for the period in which the acquisition occurred and the comparative period as though the companies had been combined as of January 1, 2017. Pro forma adjustments have been made primarily related to acquisition-related transaction costs and employee costs. The following unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition occurred as of January 1, 2017 or indicative of future results (in thousands):

	Three months ended March 31,	
	2018	2017
Revenues	$ 140,590	$ 109,131
Net loss	(140,649)	(101,292)
Basic and diluted net loss per share	(0.89)	(0.66)

9. Legal matters

On January 10, 2017, a purported securities class action lawsuit was commenced in the United States District Court for the Western District of Washington, naming as defendants the Company and certain of its officers, or the CD33A Class Action. A consolidated amended complaint was filed on June 6, 2017, following the court's appointment of a lead plaintiff and its approval of lead plaintiff's counsel. The lawsuit alleges material misrepresentations and omissions in public statements regarding the Company's business, operational and compliance policies, violations by all named defendants of Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, as well as violations of Section 20(a) of the Exchange Act. The complaint seeks compensatory damages of an undisclosed amount. The plaintiff alleges, among other things, that the Company made false and/or misleading statements and/or failed to disclose that SGN-CD33A presents a significant risk of fatal hepatotoxicity and that the Company had therefore overstated the viability of SGN-CD33A as a treatment for acute myeloid leukemia, AML. It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same matters and also naming the Company and/or its officers and directors as defendants. The Company filed a motion to dismiss this complaint on July 28, 2017. On October 18, 2017, the Court granted the Company's motion to dismiss with leave for plaintiff to file a second consolidated amended complaint. The plaintiff filed a second consolidated amended complaint on November 17, 2017, and the Company filed a motion to dismiss this new complaint on January 5, 2018. The plaintiff filed an opposition to the Company's motion to dismiss on February 16, 2018, and the Company replied to this opposition on March 9, 2018. It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same matters and also naming the Company and/or its officers and directors as defendants. The Company does not believe it is feasible to predict or determine the ultimate outcome or resolution of this litigation, or to estimate the amount of, or potential range of, loss with respect to this proceeding. In addition, the timing of the final resolution of this proceeding is uncertain. As a result of the lawsuit, the Company will incur litigation expenses and may incur indemnification expenses, and potential resolutions of the lawsuit could include a settlement requiring payments. Those expenses could have a material impact on the Company's financial position, results of operations, and cash flows.

On March 29, 2017, a stockholder derivative lawsuit, or the Stockholder Derivative Action, was filed in Washington Superior Court for the County of Snohomish, or the Snohomish County Superior Court. The complaint names as defendants certain of the Company's current and former executives and members of its board of directors. The Company is named as a nominal defendant. The complaint generally makes the same allegations as the CD33A Class Action, claiming that the individual defendants breached their duties to the Company. The complaint seeks unspecified damages, disgorgement of compensation, corporate governance changes, and attorneys' fees and costs. Because the complaint is derivative in nature, it does not seek monetary damages from the Company. On June 8, 2017, the Snohomish County Superior Court entered an order staying the Stockholder Derivative Action until resolution of the motion to dismiss the CD33A Class Action. On October 18, 2017, in light of the granting of the Company's motion to dismiss in the CD33A Class Action, the parties in the Stockholder Derivative Action filed a joint status report with the Snohomish County Superior Court stipulating to continue to stay the Stockholder Derivative Action pending a ruling on a motion to dismiss the second consolidated amended complaint in the CD33A Class Action. A similar joint status report was filed with the Snohomish County Superior Court on February 16, 2018 in order to further extend the Snohomish County Superior Court's stay. As a result of the lawsuit, the Company may incur litigation and indemnification expenses.

Between February 13, 2018 and February 16, 2018, four purported stockholders of Cascadian filed separate putative class action lawsuits and an individual complaint in the United States District Court for the District of Delaware and the United States District Court for the Western District of Washington against Cascadian and former members of its then-separate board of directors and the Company. The cases filed in Delaware are *Kim v. Cascadian Therapeutics, Inc., et al.*, and *Palazzo v. Cascadian Therapeutics, Inc., et al.* The cases filed in Washington are *Jaso v. Cascadian Therapeutics, Inc., et al.*, and *Bensimon v. Cascadian Therapeutics, Inc., et al.* Plaintiffs allege violations of Sections 14(d) and 14(e) of the Exchange Act, Rule 14d-9(d) promulgated under Section 14(d) of the Exchange Act, and Section 20(a) of the Exchange Act in connection with the Schedule 14D-9 filed by Cascadian with the SEC on February 8, 2018 in relation to

the Cascadian Acquisition. The *Bensimon* complaint also alleges that the Cascadian board breached its fiduciary duties of care, loyalty and good faith by entering into the Cascadian Acquisition and allegedly failing to take steps to maximize Cascadian's value. All four complaints allege that the Schedule 14D-9 omitted material information, ostensibly rendering the Schedule 14D-9 materially incomplete. The complaints seek, among other things, to enjoin the Cascadian Acquisition and/or damages. On March 8, 2018, plaintiffs in the *Kim*, *Palazzo* and *Bensimon* cases, or the KPB Group, filed a motion in U.S. District Court for the District of Delaware seeking the award of reasonable attorneys' fees and expenses as a result of the alleged benefit provided to Cascadian shareholders from the supplemental disclosures Cascadian made following the filing of their purported class actions, or the KPB Group Fee Motion. Defendants' answer to the KPB Group Fee Motion is due on May 11, 2018. On March 26, 2018, while reserving his right to pursue the KPB Group Fee Motion, plaintiff in the *Palazzo* case voluntarily dismissed his complaint pursuant to Federal Rule of Civil Procedure 41(a) on the grounds that Cascadian's supplemental disclosures prior to the closing of the tender offer mooted the claims set forth in his complaint. Similarly, on April 17, 2018, while reserving his right to pursue the KPB Group Fee Motion, plaintiff in the *Kim* case voluntarily dismissed his complaint pursuant to Federal Rule of Civil Procedure 41(a) on the grounds that Cascadian's supplemental disclosures prior to closing of the tender offer mooted the claims set forth in his complaint.

On March 8, 2018, three purported stockholders of Cascadian filed a Verified Complaint to Compel Inspection of Books and Records under 8 Del. C. §220 in the Delaware Court of Chancery against Cascadian, seeking to inspect books and records in order to determine whether wrongdoing or mismanagement has taken place such that it would be appropriate to file claims for breach of fiduciary duty, and to investigate the independence and disinterestedness of the former Cascadian directors with respect to the Cascadian Acquisition. The Company filed its answer to this complaint on March 28, 2018.

The Company does not believe it is feasible to predict or determine the ultimate outcome or resolution of these litigations, or to estimate the amount of, or potential range of, loss with respect to these litigations. In addition, the timing of the final resolution of these litigations is uncertain. As a result of these litigations, the Company will incur litigation expenses and may incur indemnification expenses, and potential resolutions of the lawsuit could include a settlement requiring payments. Those expenses could have a material impact on the Company's financial position, results of operations, and cash flows.

In addition, from time to time in the ordinary course of business the Company becomes involved in various lawsuits, claims and proceedings relating to the conduct of its business, including those pertaining to the defense and enforcement of its patent or other intellectual property rights. These proceedings are costly and time consuming. Successful challenges to the Company's patent or other intellectual property rights through these proceedings could result in a loss of rights in the relevant jurisdiction and may allow third parties to use the Company's proprietary technologies without a license from the Company or its collaborators.

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

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including those relating to future events or our future financial performance and financial guidance. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "expect," "plan," "anticipate," "project," "believe," "estimate," "predict," "potential," "intend" or "continue," the negative of terms like these or other comparable terminology, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are only predictions. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements except as required by law. Any or all of our forward-looking statements in this document may turn out to be wrong. Actual events or results may differ materially. Our forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and other factors. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q in greater detail under the heading "Part II. Item 1A—Risk Factors." We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

Seattle Genetics is a biotechnology company focused on the development and commercialization of targeted therapies for the treatment of cancer. Our antibody-drug conjugate, or ADC, technology utilizes the targeting ability of monoclonal antibodies to deliver cell-killing agents directly to cancer cells. We are commercializing ADCETRIS®, or brentuximab vedotin, for the treatment of several types of lymphomas. We are also advancing a pipeline of novel therapies for solid tumors and blood-related cancers designed to address unmet medical needs and improve treatment outcomes for patients.

ADCETRIS® (brentuximab vedotin)

Our marketed product ADCETRIS® is commercially available in 71 countries, including in the U.S., Canada, members of the European Union and Japan. We are collaborating with Takeda Pharmaceutical Company Limited, or Takeda, to develop and commercialize ADCETRIS on a global basis. Under this collaboration, Seattle Genetics has retained commercial rights for ADCETRIS in the U.S. and its territories and in Canada, and Takeda has commercial rights in the rest of the world and pays us a royalty. ADCETRIS is approved by the U.S. Food and Drug Administration, or FDA, for five indications, including several settings for the treatment of Hodgkin lymphoma, for relapsed systemic anaplastic large cell lymphoma, or sALCL, and for certain types of cutaneous T-cell lymphoma, or CTCL. In March 2018, the FDA approved ADCETRIS in combination with chemotherapy for the treatment of newly diagnosed adult patients with previously untreated Stage III or IV classical Hodgkin lymphoma. ADCETRIS is approved by the European Commission for four indications, encompassing several settings for the treatment of relapsed Hodgkin lymphoma, for relapsed sALCL, and for certain types of CTCL.

Beyond our current labeled indications, we are developing ADCETRIS in two ongoing phase 3 trials. In collaboration with Takeda, we are conducting the phase 3 ECHELON-2 trial in mature T-cell lymphoma, or MTCL, also known as peripheral T-cell lymphoma, or PTCL, including sALCL. ECHELON-2 is evaluating ADCETRIS in combination with CHP versus CHOP (cyclophosphamide, doxorubicin, vincristine and prednisone) for the treatment of newly-diagnosed MTCL patients. In November 2016, we and Takeda completed enrollment of 452 patients, and we expect to report top-line data in 2018. In the phase 3 CHECKMATE 812 trial, being conducted in collaboration with Bristol-Myers Squibb Company, or BMS, we are evaluating the combination of BMS's immunotherapy nivolumab (Opdivo) with ADCETRIS for the treatment of relapsed or refractory, or transplant-ineligible, classical Hodgkin lymphoma.

Clinical-stage product candidates

In collaboration with Astellas Pharma, Inc., or Astellas, we are developing enfortumab vedotin, formerly known as ASG-22ME, which is an ADC targeting Nectin-4. We and Astellas are conducting a pivotal phase 2 clinical trial, called the EV-201 trial, for patients with locally advanced or metastatic urothelial cancer who were previously treated with checkpoint inhibitor, or CPI, therapy. By the end of the third quarter of 2018, we expect to complete enrollment in the EV-201 trial of patients with locally advanced or metastatic urothelial cancer who previously received both a platinum-based chemotherapy and a CPI therapy. Positive data in this subgroup could serve as the basis for a Biologics License Application, or BLA, submission under the FDA's accelerated approval regulations. In addition, we plan to continue enrollment in the EV-201 trial for patients who previously received a CPI but not a platinum agent. The additional data could potentially serve as the basis for a second labeled indication. In addition, we and Astellas plan to initiate a phase 3 clinical trial, called EV-301, in metastatic urothelial cancer patients who have previously been treated with CPI therapy. EV-301 is intended to support global regulatory submissions for approval and serve as a confirmatory trial in the U.S. to support conversion of a potential accelerated approval to regular approval. The FDA granted Breakthrough Therapy Designation, or BTD, in March 2018 to enfortumab vedotin for patients with locally advanced or metastatic urothelial cancer who were previously treated with a CPI therapy. We and Astellas also are conducting a phase 1b trial of enfortumab vedotin in combination with CPI therapy for patients with first- or second-line locally advanced or metastatic urothelial cancer.

In March 2018, we acquired Cascadian Therapeutics, Inc., or Cascadian, a clinical-stage biopharmaceutical company based in Seattle, Washington (referred to as the Cascadian Acquisition). Through the Cascadian Acquisition, we acquired global rights to tucatinib, an investigational oral tyrosine kinase inhibitor, or TKI, targeting HER2. Tucatinib is currently being evaluated in a randomized global pivotal phase 2 trial called HER2CLIMB for patients with HER2-positive (HER2+) metastatic breast cancer, including patients with or without brain metastases. We expect to complete enrollment for HER2CLIMB clinical trial in 2019.

In collaboration with Genmab A/S, or Genmab, we are developing tisotumab vedotin, which is an ADC targeting tissue factor. We and Genmab plan to initiate a pivotal phase 2 clinical trial for patients with recurrent and/or metastatic cervical cancer.

We are also developing ladiratuzumab vedotin, an ADC targeting LIV-1, which is currently in phase 2 clinical trials. Our earlier-stage clinical pipeline includes SGN-CD48A, which utilizes our ADC technology, SEA-CD40, which is based on our sugar-engineered antibody, or SEA, technology, and SGN-2FF, which is a novel small molecule. In addition, we have multiple preclinical and research-stage programs that employ our proprietary technologies. As a result of recent portfolio and resource prioritization decisions, we are no longer developing denintuzumab mafodotin, SGN-CD19B, SGN-CD123A, SGN-CD33A, and SGN-CD352A.

We have a collaboration with Unum Therapeutics, Inc., or Unum, to develop and commercialize novel antibody-coupled T-cell receptor, or ACTR, therapies incorporating our antibodies for the treatment of cancer. We and Unum are conducting a phase 1 clinical trial studying Unum's ACTR087 in combination with SEA-BCMA for the treatment of relapsed or refractory multiple myeloma.

We have collaborations for our ADC technology with a number of other biotechnology and pharmaceutical companies, including AbbVie Biotechnology Ltd., or AbbVie; Bayer Pharma AG, or Bayer; Celldex Therapeutics, Inc., or Celldex; Genentech, Inc., a member of the Roche Group, or Genentech; GlaxoSmithKline LLC, or GSK; Pfizer, Inc., or Pfizer; and PSMA Development Company LLC, a subsidiary of Progenics Pharmaceuticals Inc., or Progenics.

Outlook

Our ongoing research, development, manufacturing and commercial activities, together with the integration and development activities related to Cascadian and Cascadian's product candidates, including tucatinib, will require substantial amounts of capital and may not ultimately be successful. In addition, we may encounter unexpected difficulties during our integration and development activities related to Cascadian and Cascadian's product candidates, any of which may cause us to expend greater funds and efforts or may slow, delay or limit development progress with respect to Cascadian's product candidates. Over the next several years, we expect that we will incur substantial expenses, primarily as a result of activities related to the commercialization of ADCETRIS and the continued development of ADCETRIS, enfortumab vedotin, tucatinib, and tisotumab vedotin. Our other product candidates are in relatively early stages of development. Enfortumab vedotin, tucatinib, tisotumab vedotin, and our other product candidates will require significant further development, financial resources and personnel to pursue and obtain regulatory approval and develop into commercially viable products, if at all. Our commitment of resources to the continuing development, regulatory and commercialization activities for ADCETRIS, the research, continued development and manufacturing of our product candidates and expansion of our pipeline, and the integration and development activities related to Cascadian and Cascadian's product candidates will likely require us to raise substantial amounts of additional capital and our operating expenses may fluctuate as a result of such activities. We may also incur significant milestone payment obligations to certain of our licensors as our product candidates progress through clinical trials towards potential commercialization.

The success of the Cascadian Acquisition will depend, in part, on our ability to successfully combine and integrate our business with the business of Cascadian and to advance the development of Cascadian's product candidates. For additional details on these risks, see *"Part II. Item 1A–-Risk Factors"* below.

We recognize revenue from ADCETRIS product sales in the U.S. and Canada. Our future ADCETRIS product sales are difficult to accurately predict from period to period and are dependent on the incidence flow of patients eligible for treatment with ADCETRIS. In this regard, our product sales have varied, and may continue to vary, significantly from period to period and may be affected by a variety of factors. Such factors include the extent to which coverage and reimbursement for ADCETRIS is available from government and other third-party payors, competition, the incidence rate of new patients in ADCETRIS' approved indications, customer ordering patterns, physicians' perception of the relative value of ADCETRIS in treating Hodgkin lymphoma in relation to alternate therapies, the overall level of demand for ADCETRIS, and the duration of therapy for patients receiving ADCETRIS. In particular:

- Obtaining and maintaining appropriate coverage and reimbursement for ADCETRIS is increasingly challenging due to, among other things, the attention being paid to healthcare cost containment and other austerity measures in the U.S. and worldwide, as well as increasing legislative and enforcement interest in the U.S. with respect to pharmaceutical drug pricing practices. We anticipate that healthcare reform measures that may be adopted in the future may result in more rigorous coverage criteria and an additional downward pressure on the price that we receive for ADCETRIS. We also anticipate that Congress, state legislatures, and third-party payors may continue to review and assess alternative healthcare delivery and payment systems and may in the future propose and adopt legislation or policy changes or implementations effecting additional fundamental changes in the healthcare delivery system, any of which could negatively affect our revenue or sales of ADCETRIS (or any future approved products).
- The competition ADCETRIS faces from competing therapies is intensifying, and we anticipate that we will continue to face increasing competition in the future as new companies enter our market and scientific developments surrounding biosimilars and other cancer therapies continue to accelerate.

For these and other reasons, we expect that our ability to accelerate ADCETRIS sales growth, if at all, will depend primarily on our ability to establish or demonstrate in the medical community the value of ADCETRIS and its potential advantages compared to

existing and future therapeutics in newly diagnosed patients with previously untreated Stage III and IV classical Hodgkin lymphoma, and physician prescribing decisions with respect to ADCETRIS in this indication. Our ability to accelerate ADCETRIS sales growth also will be affected by our ability to continue to expand ADCETRIS' utilization across all labeled indications of use, particularly in the frontline MTCL indication. In particular, negative or inconclusive results in our ECHELON-2 trial would negatively impact, or preclude altogether, our and Takeda's ability to obtain regulatory approvals in the frontline MTCL indication in our respective territories, which would limit our sales of, and the commercial potential of, ADCETRIS. In addition, Takeda may be unable to obtain regulatory approvals of ADCETRIS in the ECHELON-1 treatment setting in its territories, which also would limit their sales, and the commercial potential, of ADCETRIS.

We also expect that amounts earned from our collaboration agreements, including royalties, will continue to be an important source of our revenues and cash flows. These revenues will be impacted by future development funding and the achievement of development, clinical and commercial success by our collaborators under our existing collaboration and license agreements, including our ADCETRIS collaboration with Takeda, as well as by entering into potential new collaboration and license agreements. Our results of operations may vary substantially from year to year and from quarter to quarter and, as a result, we believe that period to period comparisons of our operating results may not be meaningful and should not be relied upon as being indicative of our future performance.

Financial summary

For the three months ended March 31, 2018, total revenues increased to $140.6 million, compared to $109.1 million for the same period in 2017. This increase was primarily driven by higher ADCETRIS net product sales. Net product sales of ADCETRIS were $95.4 million for the three months ended March 31, 2018, compared to $70.3 million for the same period in 2017.

For the three months ended March 31, 2018, total costs and expenses increased to $234.4 million, compared to $168.4 million for the same period in 2017. This primarily reflected higher research and development expenses, due to upfront payments for in-license agreements and continued investment in our late-stage pipeline, as well as higher selling, general, and administrative costs due to the Cascadian Acquisition and to support the ADCETRIS launch in patients diagnosed with previously untreated Stage III or IV classical Hodgkin lymphoma. In addition, our costs and expenses included Cascadian operations subsequent to March 9, 2018. Net loss for the three months ended March 31, 2018 included a loss of $18.8 million resulting from the change in the fair value of our common stock holdings in Immunomedics, Inc., or Immunomedics, and Unum.

As of March 31, 2018, we had $399.9 million in cash, cash equivalents and short-term investments, and $1.3 billion in total stockholders' equity.

Comparability

In March 2018, we acquired Cascadian for $10.00 per share in cash, or approximately $614.1 million. Cascadian is included in our results of operations as of the acquisition date. Accordingly, the results discussed below were impacted by the timing of this acquisition. Refer to *"Part I. Item 1. Note 8—Acquisition of Cascadian"* for additional information on the Cascadian Acquisition.

We adopted Accounting Standards Codification Topic 606—Revenue from Contracts with Customers, or Topic 606, on January 1, 2018, resulting in a change to our accounting policy for revenue recognition. We used the modified retrospective method and recognized the cumulative effect of initially applying Topic 606 as an adjustment to the opening accumulated deficit at January 1, 2018. Accordingly, comparative information has not been adjusted and continues to be reported under previous accounting standards. Refer to *"Part I. Item 1. Note 2—Revenue from contracts with customers"* for additional information.

We adopted Accounting Standards Update entitled "ASU 2016-01, Financial Instruments: Overall" on January 1, 2018, which addressed certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including that changes in the fair value of equity securities be recorded in income or loss rather than accumulated other comprehensive income or loss in stockholders' equity. We used the modified retrospective method and recognized the cumulative effect of initially applying this ASU as an adjustment to the opening accumulated deficit at January 1, 2018. Accordingly, comparative information has not been adjusted and continues to be reported under previous accounting standards. Refer to *"Part I. Item 1. Note 1—Basis of presentation"* for additional information.

Results of operations

Net product sales

We sell ADCETRIS in the U.S. and Canada.

	Three months ended March 31,		
(dollars in thousands)	**2018**	**2017**	**% Change**
Net product sales	$95,357	$70,321	36%

The increase in net product sales for the three months ended March 31, 2018 from the comparable period in 2017 primarily resulted from an increase in sales volume in the 2018 period and, to a lesser extent, from the effect of price increases instituted in 2017. The increase in sales volume in 2018 primarily was driven by increased use of ADCETRIS across multiple lines of therapy in Hodgkin lymphoma and for the treatment of other malignancies.

We expect continued growth in ADCETRIS sales in 2018 as compared to 2017. Our ability to accelerate ADCETRIS sales growth in future periods, if at all, will be primarily dependent on our ability to continue to expand ADCETRIS' utilization across all labeled indications of use, particularly in newly diagnosed and previously untreated State III and IV classical Hodgkin lymphoma.

We sell ADCETRIS through a limited number of pharmaceutical distributors in the U.S. and Canada. Customers order ADCETRIS through these distributors, and we typically ship product directly to the customer. The delivery of ADCETRIS to the end-user site represents a single performance obligation for these transactions. We record product sales at the point in time when title and risk of loss pass, which generally occurs upon delivery of the product to the customer. The transaction price for product sales represents the amount we expect to receive, which is net of estimated government-mandated rebates and chargebacks, distribution fees, estimated product returns and other deductions. Accruals are established for these deductions and actual amounts incurred are offset against applicable accruals. We reflect these accruals as either a reduction in the related account receivable from the distributor or as an accrued liability depending on the nature of the sales deduction. Sales deductions are based on management's estimates that consider payor mix in target markets and experience to date. These estimates involve a substantial degree of judgment. We have applied a portfolio approach as a practical expedient for estimating net product sales from ADCETRIS.

Gross-to-net deductions, net of related payments and credits, were as follows:

(in thousands)	Rebates and chargebacks	Distribution fees, product returns and other	Total
Balance as of December 31, 2017	$ 14,374	$ 3,521	$ 17,895
Provision related to current period sales	36,921	2,388	39,309
Adjustment for prior period sales	315	(143)	172
Payments/credits for current period sales	(27,457)	(954)	(28,411)
Payments/credits for prior period sales	(5,990)	(923)	(6,913)
Balance as of March 31, 2018	$ 18,163	$ 3,889	$ 22,052

Mandatory government discounts are the most significant component of our total gross-to-net deductions and the discount percentage has been increasing. These discount percentages increased during the three months ended March 31, 2018 as a result of price increases we instituted that exceeded the rate of inflation. Generally, the change in government prices is limited to the rate of inflation. We expect future gross-to-net deductions to fluctuate based on the volume of purchases eligible for government mandated discounts and rebates, as well as changes in the discount percentage which is impacted by potential future price increases, the rate of inflation, and other factors. With expected continued growth in ADCETRIS sales, we expect gross-to-net deductions to increase in 2018 as compared to 2017.

Collaboration and license agreement revenues

We have collaboration and license agreements with a number of biotechnology and pharmaceutical companies. Our proprietary ADC technologies are the basis of many of our collaboration and license agreements, including our ADC collaborations that we have entered into in the ordinary course of our business under which we grant our collaborators research and commercial licenses to our technology and typically provide technology transfer services, technical advice, supplies and services for a period of time. Our collaboration and license agreements include contractual milestones. Generally, the milestone events contained in our collaboration and license agreements coincide with the progression of the collaborators' product candidates from development to regulatory approval and then to commercialization.

Collaboration and license agreement revenues by collaborator were as follows:

	Three months ended March 31,		
(dollars in thousands)	2018	2017	% Change
Takeda	$13,572	$20,266	(33%)
AbbVie	8,000	719	1,013%
Other	7,987	845	845%
Collaboration and license agreement revenues	$29,559	$21,830	35%

Collaboration revenues from Takeda fluctuate based on changes in the recognized portion of reimbursement funding under the ADCETRIS collaboration, which are influenced by the activities each party is performing under the collaboration agreement at a given time. For example, when Takeda's level of spending on clinical collaboration activities increases above our own, our earned portion of reimbursement funding generally decreases. Additionally, we receive reimbursement for the cost of drug product supplied to Takeda for its use, the timing of which fluctuates based on Takeda's product supply needs. Collaboration revenues from Takeda decreased during the three months ended March 31, 2018 from the comparable period in 2017, primarily driven by a decrease in drug product supply activities.

Collaboration revenues from AbbVie increased during the three months ended March 31, 2018 from the comparable period in 2017, primarily due to the recognition of a development milestone from our ADC collaboration. Collaboration revenues from Other increased primarily due to clinical manufacturing services performed for BMS under a transitional services agreement related to our acquisition of a manufacturing facility, or the North Creek manufacturing facility, in October 2017. These activities concluded as of March 31, 2018.

Our collaboration and license agreement revenues are impacted by the term and duration of those agreements and by progress-dependent milestones, annual maintenance fees and reimbursement of materials and support services. Collaboration and license agreement revenues may vary substantially from year to year and quarter to quarter depending on the progress made by our collaborators with their product candidates, the level of support we provide to our collaborators, specifically to Takeda under our ADCETRIS collaboration, the timing of milestones achieved and our ability to enter into potential additional collaboration and license agreements. We expect our collaboration and license agreement revenues in 2018 to be lower than 2017, driven by the lower expected volume of drug to be supplied to Takeda. As of March 31, 2018, we recorded $58.3 million of deferred revenue related to our collaboration with Takeda, which we will recognize over the remainder of the ten-year performance period ending November 2019.

Collaboration agreements

Takeda

Our ADCETRIS collaboration with Takeda provides for the global co-development of ADCETRIS and the commercialization of ADCETRIS by Takeda in its territory. We received an upfront payment and have received and are entitled to receive progress- and sales-dependent milestone payments based on Takeda's achievement of significant events under the collaboration, in addition to tiered royalties with percentages ranging from the mid-teens to the mid-twenties based on net sales of ADCETRIS within Takeda's licensed territories. Additionally, the companies equally co-fund the cost of selected development activities conducted under the collaboration. We recognize as collaboration revenue the upfront payment, progress-dependent development and regulatory milestone payments, and net development cost reimbursement payments from Takeda over the ten-year development period of the collaboration, which is expected to end in 2019. When the performance of development activities under the collaboration results in us making a reimbursement payment to Takeda, the effect is to reduce the amount of collaboration revenue that we record. We also receive reimbursement for the cost of drug product supplied to Takeda for its use and, in some cases, pay Takeda for drug product they supply to us. The earned portion of net collaboration payments is reflected in collaboration and license agreement revenues.

As of March 31, 2018, total future potential milestone payments to us under the ADCETRIS collaboration could total approximately $165 million. Of the remaining amount, up to approximately $7 million relates to the achievement of development milestones, up to approximately $118 million relates to the achievement of regulatory milestones and up to approximately $40 million relates to the achievement of commercial milestones. As of March 31, 2018, $70 million in milestones had been achieved as a result of regulatory and commercial progress by Takeda.

Astellas

We have an agreement with Agensys, which subsequently became an affiliate of Astellas, to jointly research, develop and commercialize ADCs for the treatment of several types of cancer. The collaboration encompasses combinations of our ADC technology with fully-human antibodies developed by Astellas to proprietary cancer targets.

Under this collaboration, we and Astellas are co-funding all development and commercialization costs for enfortumab vedotin and will share equally in any profits that may come from this product candidate if successfully commercialized. Costs associated with co-development activities are included in research and development expense.

Genmab

We have an agreement with Genmab for the development and commercialization of ADCs for the treatment of several types of cancer.

Under this agreement, we exercised a co-development option for tisotumab vedotin in August 2017. We and Genmab will share all future costs and profits for development and commercialization of tisotumab vedotin on an equal basis. Costs associated with co-development activities are included in research and development expense. We will be responsible for tisotumab vedotin commercialization activities in the U.S., Canada, and Mexico, while Genmab will be responsible for commercialization activities in all other territories. Each party has the option to co-promote up to a specified percentage of the sales effort in the other party's territories.

Unum

We have a collaboration agreement with Unum to develop and commercialize novel ACTR therapies for cancer. We and Unum are developing two ACTR product candidates that combine Unum's ACTR technology with our antibodies. Unum is conducting preclinical research and clinical development activities through phase 1 clinical trials, and we are providing funding for these activities. The agreement calls for us to work together to co-develop and jointly fund programs after phase 1 clinical trials unless either company opts out. Costs associated with co-development activities are included in research and development expense.

We and Unum would co-commercialize any successfully developed product candidates and share any profits equally on any co-developed programs in the U.S. We retain exclusive commercial rights outside of the U.S., paying Unum a royalty that is a high single digit to mid-teens percentage of ex-U.S. sales. The potential future licensing and progress-dependent milestone payments to Unum under the collaboration may total up to $400 million between the two ACTR programs, payment of which is triggered by the achievement of development, regulatory and commercial milestones.

ADC Collaboration Agreements

We have other active collaborations with a number of companies to allow them to use our proprietary ADC technology. Under these ADC collaborations, which we have entered into in the ordinary course of business, we typically receive or are entitled to receive upfront cash payments, progress- and sales-dependent milestones and royalties on net sales of products incorporating our ADC technology, as well as annual maintenance fees and support fees for research and development services and materials provided under the agreements. These amounts are recognized as revenue over the performance obligation period or, if there is no performance obligation, upon transfer of control of the goods and services to the customer. Our ADC collaborators are solely responsible for research, product development, manufacturing and commercialization of any product candidates under these collaborations, which includes achievement of the potential milestones.

As of March 31, 2018, our ADC collaborations had generated approximately $400 million, primarily in the form of upfront and milestone payments. Total milestone payments to us under our current ADC collaborations could total up to approximately $2.9 billion if all potential product candidates achieved all of their milestone events. Of this amount, approximately $0.4 billion relates to the achievement of development milestones, approximately $1.1 billion relates to the achievement of regulatory milestones and approximately $1.4 billion relates to the achievement of commercial milestones. Since we do not control the research, development or commercialization of any of the products that would generate these milestones, we are not able to reasonably estimate when, if at all, any milestone payments or royalties may be payable by our collaborators. Successfully developing a product candidate, obtaining regulatory approval and ultimately commercializing it is a significantly lengthy and highly uncertain process which entails a significant risk of failure. In addition, business combinations, changes in a collaborator's business strategy and financial difficulties or other factors could result and have resulted in a collaborator abandoning or delaying development of its product candidates. As such, the milestone payments associated with our ADC collaboration and license agreements involve a substantial degree of risk and may never be received. Accordingly, we do not expect, and investors should not assume, that we will receive all of the potential milestone payments described above, and it is possible that we may never receive any significant milestone payments under these agreements.

Royalty revenues and cost of royalty revenues

Royalty revenues primarily reflect royalties paid to us by Takeda under the ADCETRIS collaboration. These royalties include commercial sales-based milestones and sales royalties. The royalty rate paid by Takeda is calculated as a percentage of Takeda's net sales of ADCETRIS, ranges from the mid-teens to the mid-twenties depending on sales volumes, and resets annually. Takeda bears a portion of third-party royalty costs owed on sales of ADCETRIS in its territory. This amount is included in our royalty revenues. Cost of royalty revenues reflect amounts owed to our third-party licensors related to the sale of ADCETRIS in Takeda's territory.

	Three months ended March 31,		
(dollars in thousands)	**2018**	**2017**	**% Change**
Royalty revenues	$15,674	$16,980	(8%)
Cost of royalty revenues	$ 5,377	$ 4,380	23%

Royalty revenues decreased for the three months ended March 31, 2018 from the comparable period in 2017 primarily driven by the adoption of Topic 606, offset in part by higher net sales volume of ADCETRIS by Takeda in its territories. The adoption of Topic 606 resulted in $7.3 million lower royalty revenues recorded for the three months ended March 31, 2018 as compared to what would have been recorded under previous accounting guidance, as described in *"Part I. Item 1. Note 2—Revenue from contracts with customers."* We expect that royalty revenues will increase in 2018 as compared to 2017, primarily due to anticipated increases in sales volume by Takeda.

Cost of royalty revenues fluctuates based on the amount of net sales of ADCETRIS by Takeda in its territories. We expect cost of royalty revenues to increase in 2018 primarily due to anticipated increases in sales volumes in Takeda's territory and, to a lesser extent, increases in the applicable royalty rate.

Cost of sales

ADCETRIS cost of sales includes manufacturing costs of product sold, third-party royalty costs, amortization of technology license costs, and distribution and other costs.

	Three months ended March 31,		
(dollars in thousands)	2018	2017	% Change
Cost of sales	$10,358	$7,481	38%

Cost of sales for the three months ended March 31, 2018 increased from the comparable period in 2017 primarily due to increased sales volumes. We expect cost of sales to increase in 2018, primarily due to anticipated increases in sales volumes.

Research and development

	Three months ended March 31,		
(dollars in thousands)	2018	2017	% Change
Research and clinical development	$116,399	$ 69,275	68%
Process sciences and manufacturing	36,103	48,909	(26)%
Total research and development	$152,502	$118,184	29%

Certain prior year balances have been reclassified within research and development expenses to conform to current year presentation.

Research and clinical development expenses include, among other things, personnel, occupancy and laboratory expenses, technology access fees, preclinical translational biology and *in vitro* and *in vivo* studies, IND-enabling pharmacology and toxicology studies, and external clinical trial costs including costs for clinical sites, clinical research organizations, contractors and regulatory activities associated with conducting human clinical trials. The increase in the three months ended March 31, 2018 as compared to 2017 reflected $35.0 million of upfront in-licensing payments during the period, as well as increases in both internal and co-development costs to support our late stage pipeline of product candidates.

Process sciences and manufacturing expenses include personnel and occupancy expenses, external contract manufacturing costs for the scale-up and pre-approval manufacturing of drug product used in research and our clinical trials, and costs for drug product supplied to our collaborators. Process sciences and manufacturing expenses also include quality control and assurance activities, and storage and shipment of our product candidates. The decrease in the three months ended March 31, 2018 as compared to 2017 primarily reflected decreased drug product supplied to Takeda, offset by increases in staffing and other costs to support our late stage pipeline of product candidates, including operating costs of the North Creek manufacturing facility.

We utilize our employee and infrastructure resources across multiple research and development projects. We track human resource efforts expended on many of our programs for purposes of billing our collaborators for time incurred at agreed upon rates and for resource planning. We do not account for actual costs on a project basis as it relates to our infrastructure, facility, employee and other indirect costs; however, we do separately track significant third-party costs including clinical trial costs, manufacturing costs and other contracted service costs on a project basis. To that end, the following table shows third-party costs incurred for research, contract manufacturing of our product candidates and clinical and regulatory services, as well as pre-commercial milestone payments for in-licensed technology for ADCETRIS and certain of our clinical-stage product candidates. The table also presents other costs and overhead consisting of third-party costs for our preclinical stage programs, personnel, facilities and other indirect costs not directly charged to development programs.

	Three months ended March 31,		Five years ended
(in thousands)	2018	2017	March 31, 2018
ADCETRIS (brentuximab vedotin)	$ 7,531	$ 23,737	$ 319,894
ASG-22ME (enfortumab vedotin)	4,163	7,942	36,780
Tucatinib	2,874	N/A	2,874
Tisotumab vedotin	7,368	0	13,390
SGN-LIV1A (ladiratuzumab vedotin)	7,255	1,670	37,239
SGN-CD33A (vadastuximab talirine)	1,356	16,488	109,954
Other clinical stage programs	5,891	10,007	144,093
Total third-party costs for clinical stage programs	36,438	59,844	664,224
Other costs and overhead	116,064	58,340	1,020,450
Total research and development	$152,502	$118,184	$ 1,684,674

N/A: No amount in comparable period or not a meaningful comparison.

Third-party costs for ADCETRIS decreased in the three months ended March 31, 2018 from the comparable period in 2017 primarily due to a decrease in drug product supplied to Takeda, as well as a decrease in clinical trial activities. The cost of drug product supplied to Takeda is charged to research and development expense. We are reimbursed for the drug product, which is included in collaboration and license agreement revenues.

Third-party costs for enfortumab vedotin decreased during the three months ended March 31, 2018 from the comparable period in 2017 primarily due to a decrease in contract manufacturing activities, which can fluctuate based on the timing of clinical product needs, partially offset by an increase in clinical trial costs related to the progression of this later-stage program.

Third-party costs for tisotumab vedotin and ladiratuzumab vedotin increased during the three months ended March 31, 2018 from the comparable period in 2017 primarily due to increases in drug supply and clinical trial costs related to the progression of our later-stage pipeline. Through the Cascadian Acquisition, we acquired global rights to tucatinib. Tucatinib is currently being evaluated in a randomized global pivotal phase 2 trial called HER2CLIMB for patients with HER2-positive (HER2+) metastatic breast cancer, including patients with or without brain metastases.

Third-party costs for SGN-CD33A decreased in the three months ended March 31, 2018 from the comparable period in 2017 due to the discontinuation of our phase 3 CASCADE and other SGN-CD33A clinical trials in 2017.

Other costs and overhead include third-party costs of our preclinical programs and costs associated with personnel and facilities, which increased during the three months ended March 31, 2018. Additionally, other costs increased due to $35.0 million of upfront in-licensing payments.

In order to advance our product candidates toward commercialization, the product candidates are tested in numerous preclinical safety, toxicology and efficacy studies. We then conduct clinical trials for those product candidates that take several years or more to complete. The length of time varies substantially based upon the type, complexity, novelty and intended use of a product candidate. Likewise, in order to expand labeled indications of use, we are required to conduct additional extensive clinical trials. The cost of clinical trials may vary significantly over the life of a project as a result of a variety of factors, including:

- the number of patients required in our clinical trials;
- the length of time required to enroll trial participants;
- the number and location of sites included in the trials;
- the costs of producing supplies of the product candidates needed for clinical trials and regulatory submissions;
- the safety and efficacy profile of the product candidate;
- the use of clinical research organizations to assist with the management of the trials; and
- the costs and timing of, and the ability to secure, regulatory approvals.

We anticipate that our total research and development expenses in 2018 will increase compared to 2017 due primarily to higher costs for the development of our product candidates, primarily enfortumab vedotin, tucatinib, tisotumab vedotin, and ladiratuzumab vedotin, the operation of the North Creek manufacturing facility that we acquired in October 2017, and upfront in-license payments. Certain ADCETRIS development activities, including some clinical studies, will be conducted by Takeda, the costs of which are not reflected in our research and development expenses. Because of these and other factors, expenses will fluctuate based upon many factors, including the degree of collaborative activities, timing of manufacturing campaigns, numbers of patients enrolled in our clinical trials and the outcome of each clinical trial event.

The risks and uncertainties associated with our research and development projects are discussed more fully in *"Part II. Item 1A—Risk Factors."* As a result of the uncertainties discussed above, we are unable to determine with any degree of certainty the duration and completion costs of our research and development projects, anticipated completion dates or when and to what extent we will receive cash inflows from the commercialization and sale of ADCETRIS in any additional approved indications or of any of our product candidates.

Selling, general and administrative

	Three months ended March 31,		
(dollars in thousands)	**2018**	**2017**	**% Change**
Selling, general and administrative	$66,182	$38,404	72%

Selling, general and administrative expenses increased during the three months ended March 31, 2018 from the comparable period in 2017 primarily due to the costs associated with the Cascadian Acquisition, increases in staffing and investments to launch ADCETRIS in patients diagnosed with previously untreated Stage III or IV classical Hodgkin lymphoma, and higher infrastructure costs to support our continued growth.

We anticipate that selling, general and administrative expenses will increase in 2018 compared to 2017 as we continue our commercial activities in support of the commercialization of ADCETRIS, as well as our support of general operations which now includes Cascadian.

Investment and other loss, net

	Three months ended March 31,		
(dollars in thousands)	**2018**	**2017**	**% Change**
Investment and other loss, net	$(17,886)	$(672)	N/A

N/A: No amount in comparable period or not a meaningful comparison.

Investment and other loss, net includes other non-operating income and loss, such as unrealized holding gains and losses on equity securities and amounts earned on our investments in U.S. Treasury securities. The increase in investment and other loss, net during the three months ended March 31, 2018 from the comparable period in 2017 primarily was related to $18.8 million of net losses from the changes in the fair values of our equity securities. We adopted "ASU 2016-01, Financial Instruments: Overall" on January 1, 2018, which required that changes in the fair value of equity securities be recorded in income or loss rather than accumulated other comprehensive income. Comparative information has not been adjusted and continues to be reported under previous accounting standards.

Liquidity and capital resources

(in thousands)	**March 31, 2018**	**December 31, 2017**
Cash, cash equivalents, and investments	$ 399,916	$ 413,171
Working capital	466,514	409,932
Stockholders' equity	1,279,337	677,569

	Three months ended March 31,	
(in thousands)	**2018**	**2017**
Cash provided (used) by:		
Operating activities	$ (147,164)	$ (63,544)
Investing activities	(496,961)	19,803
Financing activities	670,070	10,835

The change in net cash from operating activities primarily was related to the change in our net loss, working capital fluctuations and changes in our non-cash expenses, all of which are highly variable. The change in cash from investing activities reflected differences between the proceeds received from sale and maturity of our investments and amounts reinvested, and for the three months ended March 31, 2018, included $614.1 million (or $598.2 million net of the cash acquired) for the Cascadian Acquisition in March 2018. The change in cash from financing activities included proceeds from stock option exercises and our employee stock purchase plan for all periods presented, and for the three months ended March 31, 2018, included $658.2 million in net proceeds from our public offering in February 2018.

We primarily have financed our operations through the issuance of equity securities, collections from commercial sales of ADCETRIS, and amounts received pursuant to product collaborations and our ADC collaborations. To a lesser degree, we also have financed our operations through royalty revenues and interest earned on cash, cash equivalents and investment securities. These financing and revenue sources have allowed us to maintain adequate levels of cash and investments.

Our cash, cash equivalents, and investments are held in a variety of non-interest bearing bank accounts and interest-bearing instruments subject to investment guidelines allowing for holdings in U.S. government and agency securities, corporate securities, taxable municipal bonds, commercial paper and money market accounts. Our investment portfolio is structured to provide for investment maturities and access to cash to fund our anticipated working capital needs. However, if our liquidity needs should be accelerated for any reason in the near term, or investments do not pay at maturity, we may be required to sell investment securities in our portfolio prior to their scheduled maturities, which may result in a loss. As of March 31, 2018, we had $399.9 million held in cash, cash equivalents and investments scheduled to mature within the next twelve months.

At our currently planned spending rates, we believe that our existing financial resources, together with product and royalty revenues from sales of ADCETRIS and the fees, milestone payments and reimbursements we expect to receive under our existing collaboration and license agreements, will be sufficient to fund our operations for at least the next twelve months. Changes in our spending rate may occur that would consume available capital resources sooner, such as increased development, manufacturing and clinical trial expenses in connection with our expanding pipeline programs, our undertaking of additional programs, business activities, or entry into additional strategic transactions, including potential additional acquisitions of products, technologies or businesses.

Accordingly, we may be required to, or may otherwise determine to, raise additional capital to fund those obligations. Further, in the event of a termination of the ADCETRIS collaboration agreement with Takeda, we would not receive development cost sharing payments or milestone payments or royalties for the development or sale of ADCETRIS in Takeda's territory, and we would be required to fund all ADCETRIS development and commercial activities. Any of these factors could lead to a need for us to raise additional capital.

We expect to make additional capital outlays and to increase operating expenditures over the next several years as we hire additional employees, support our preclinical development, manufacturing and clinical trial activities for ADCETRIS and our other pipeline programs, and expand internationally, as well as commercialize ADCETRIS and position ADCETRIS for potential additional regulatory approvals. In addition, we anticipate committing substantial capital resources to the integration and development activities related to Cascadian and tucatinib. Our commitment of resources to the continuing development, regulatory and commercialization activities for ADCETRIS, and the research, continued development and manufacturing of our product candidates will likely require us to raise substantial amounts of additional capital. Further, we actively evaluate various strategic transactions on an ongoing basis, including licensing or otherwise acquiring complementary products, technologies or businesses, and we may require significant additional capital in order to complete or otherwise provide funding for any additional acquisitions. We may seek additional funding through some or all of the following methods: corporate collaborations, licensing arrangements and public or private debt or equity financings. We do not know whether additional capital will be available when needed, or that, if available, we will obtain financing on terms favorable to us or our stockholders. If we are unable to raise additional funds when we need them, we may be required to delay, reduce the scope of, or eliminate one or more of our development programs, which may adversely affect our business and operations.

Commitments

Our future minimum contractual commitments were reported in our Annual Report on Form 10-K for the year ended December 31, 2017.

Critical accounting policies

The preparation of financial statements in accordance with generally accepted accounting principles requires us to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingencies. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our critical accounting policies, those with the more significant judgments and estimates, used in the preparation of our financial statements for the three months ended March 31, 2018 were consistent with those in Part II Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017, with the following updates:

Business combinations, including acquired in-process research and development and goodwill: We account for business combinations using the acquisition method, recording the acquisition-date fair value of total consideration over the acquisition-date fair value of net assets acquired as goodwill.

Fair value is typically estimated using the present value of future discounted cash flows, an income approach. The significant estimates in the discounted cash flow model primarily include the discount rate, rates of future revenue growth and/or profitability of the acquired business, and working capital effects. The discount rate considers the relevant risk associated with business-specific characteristics and the uncertainty related to the ability to achieve the projected cash flows. Specific to in-process research and development, significant estimates primarily include the number of potential patients and the market prices of future commercial products, costs required to conduct clinical trials and commercialize future products, and estimates for the probability of success and discount rate. These estimates and the resulting valuations require significant judgment.

Revenue recognition: We adopted Topic 606 on January 1, 2018, resulting in a change to our accounting policy for revenue recognition. This standard did not generally change the practice under which we recognize product revenue from sales of ADCETRIS. We applied similar significant judgment to our estimates for gross-to-net deductions as required under previous accounting standards.

For collaboration and license agreement revenues, we applied and may continue to apply significant judgment to our Takeda ADCETRIS collaboration:

- We evaluated whether our contractual obligations represented distinct performance obligations. Such evaluation required significant judgment since it was made from the customer's perspective. We determined that our performance obligations under the collaboration at contract inception were not distinct and represented a single performance obligation.
- The Takeda ADCETRIS collaboration includes variable consideration. We assess variable consideration at each reporting period as to whether it is not subject to significant future reversal and, therefore, should be included in the transaction price. Assessing the probability of future reversal requires significant judgment.

In future ADC and other collaboration and license agreements, we may be required to make significant judgments regarding our performance obligations and any variable consideration.

Commercial sales-based milestones and sales royalties are recorded in the period of the related sale and based on estimates if actual information is not yet available. Royalty revenues primarily reflect amounts earned under the Takeda ADCETRIS collaboration based on a percentage of Takeda's net sales of ADCETRIS. Since we do not take a substantive role or control the commercial sales of ADCETRIS by Takeda, estimating their net sales of ADCETRIS may require significant judgment to the extent actual information is not yet available.

Recent accounting pronouncements

Refer to *"Part I. Item 1. Note 1--Summary of significant accounting policies"* for a discussion on recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

There have been no material changes to our interest rate risk during the three months ended March 31, 2018. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Foreign currency risk

There have been no material changes to our foreign currency risk during the three months ended March 31, 2018. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Equity price risk

There have been no material changes to our equity price risk during the three months ended March 31, 2018. For additional information, see Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Upon our adoption of the Accounting Standards Update entitled "ASU 2016-01, Financial Instruments: Overall" on January 1, 2018, we are recording changes in the fair value of equity securities in net income or loss. To the extent that we continue to hold equity securities, our operating results may fluctuate significantly.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended) prior to the filing of this quarterly report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were, in design and operation, effective.

(b) *Changes in internal control over financial reporting.* There have not been any changes in our internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We acquired Cascadian on March 9, 2018. We are still assessing the internal controls of Cascadian but do not believe those controls have materially affected, or are likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Stockholder Class Action Relating to SGN-CD33A. On January 10, 2017, a purported securities class action lawsuit was commenced in the United States District Court for the Western District of Washington, naming as defendants us and certain of our officers, or the CD33A Class Action. A consolidated amended complaint was filed on June 6, 2017, following the court's appointment of a lead plaintiff and its approval of lead plaintiff's counsel. The lawsuit alleges material misrepresentations and omissions in public statements regarding our business, operational and compliance policies, violations by all named defendants of Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, as well as violations of Section 20(a) of the Exchange Act. The complaint seeks compensatory damages of an undisclosed amount. The plaintiff alleges, among other things, that we made false and/or misleading statements and/or failed to disclose that SGN-CD33A presents a significant risk of fatal hepatotoxicity and that we had therefore overstated the viability of SGN-CD33A as a treatment for acute myeloid leukemia, or AML. It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same matters and also naming us and/or our officers and directors as defendants. We filed a motion to dismiss this complaint on July 28, 2017. On October 18, 2017, the Court granted our motion to dismiss with leave for plaintiff to file a second consolidated amended complaint. The plaintiff filed a second consolidated amended complaint on November 17, 2017, and we filed a motion to dismiss this new complaint on January 5, 2018. The plaintiff filed an opposition to our motion to dismiss on February 16, 2018, and we replied to this opposition on March 9, 2018. It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same matters and also naming us and/or our officers and directors as defendants. We do not believe it is feasible to predict or determine the ultimate outcome or resolution of this litigation, or to estimate the amount of, or potential range of, loss with respect to this proceeding. In addition, the timing of the final resolution of this proceeding is uncertain. As a result of the lawsuit, we will incur litigation expenses and may incur indemnification expenses, and potential resolutions of the lawsuit could include a settlement requiring payments. Those expenses could have a material impact on our financial position, results of operations, and cash flows.

Stockholder Derivative Action Relating to SGN-CD33A. On March 29, 2017, a stockholder derivative lawsuit, or the Stockholder Derivative Action, was filed in Washington Superior Court for the County of Snohomish, or the Snohomish County Superior Court. The complaint names as defendants certain of our current and former executives and members of our board of directors. We are named as a nominal defendant. The complaint generally makes the same allegations as the CD33A Class Action, claiming that the individual defendants breached their duties to us. The complaint seeks unspecified damages, disgorgement of compensation, corporate governance changes, and attorneys' fees and costs. Because the complaint is derivative in nature, it does not seek monetary damages from us. On June 8, 2017, the Snohomish County Superior Court entered an order staying the Stockholder Derivative Action until resolution of the motion to dismiss the CD33A Class Action. On October 18, 2017, in light of the granting of our motion to dismiss in the CD33A Class Action, the parties in the Stockholder Derivative Action filed a joint status report with the Snohomish County Superior Court stipulating to continue to stay the Stockholder Derivative Action pending a ruling on a motion to dismiss the second consolidated amended complaint in the CD33A Class Action. A similar joint status report was filed with the Snohomish County Superior Court on February 16, 2018 in order to further extend the Snohomish County Superior Court's stay. As a result of the lawsuit, we may incur litigation and indemnification expenses.

Litigations Relating to the Cascadian Acquisition. Between February 13, 2018 and February 16, 2018, four purported stockholders of Cascadian filed separate putative class action lawsuits and an individual complaint in the United States District Court for the District of Delaware and the United States District Court for the Western District of Washington against Cascadian and former members of its then-separate board of directors, and Seattle Genetics. The cases filed in Delaware are *Kim v. Cascadian Therapeutics, Inc., et al.*, and *Palazzo v. Cascadian Therapeutics, Inc., et al.* The cases filed in Washington are *Jaso v. Cascadian Therapeutics, Inc., et al.*, and *Bensimon v. Cascadian Therapeutics, Inc., et al.* Plaintiffs allege violations of Sections 14(d) and 14(e) of the Exchange Act, Rule 14d-9(d) promulgated under Section 14(d) of the Exchange Act, and Section 20(a) of the Exchange Act in connection with the Schedule 14D-9 filed by Cascadian with the SEC on February 8, 2018 in relation to the Cascadian Acquisition. The *Bensimon* complaint also alleges that the Cascadian board breached its fiduciary duties of care, loyalty and good faith by entering into the Cascadian Acquisition and allegedly failing to take steps to maximize Cascadian's value. All four complaints allege that the Schedule 14D-9 omitted material information, ostensibly rendering the Schedule 14D-9 materially incomplete. The complaints seek, among other things, to enjoin the Cascadian Acquisition and/or damages. On March 8, 2018, plaintiffs in the *Kim*, *Palazzo* and *Bensimon* cases, or the KPB Group, filed a motion in U.S. District Court for the District of Delaware seeking the award of reasonable attorneys' fees and expenses as a result of the alleged benefit provided to Cascadian shareholders from the supplemental disclosures Cascadian made following the filing of their purported class actions, or the KPB Group Fee Motion. Defendants' answer to the KPB Group Fee Motion is due on May 11, 2018. On March 26, 2018, while reserving his right to pursue the KPB Group Fee Motion, plaintiff in the *Palazzo* case voluntarily dismissed his complaint pursuant to Federal Rule of Civil Procedure 41(a) on the grounds that Cascadian's supplemental disclosures prior to the closing of the tender offer mooted the claims set forth in his complaint. Similarly, on April 17, 2018, while reserving the right to pursue the KPG Group Fee Motion, plaintiff in the *Kim* case voluntarily dismissed his complaint pursuant to the Federal Rule of Civil Procedure 41(a) on the grounds that Cascadian's supplemental disclosures prior to closing of the tender offer mooted the claims set forth in the complaint.

On March 8, 2018, three purported stockholders of Cascadian filed a Verified Complaint to Compel Inspection of Books and Records under 8 Del. C. §220 in the Delaware Court of Chancery against Cascadian, seeking to inspect books and records in order to determine whether wrongdoing or mismanagement has taken place such that it would be appropriate to file claims for breach of fiduciary duty, and to investigate the

independence and disinterestedness of the former Cascadian directors with respect to the Cascadian Acquisition. We filed our answer to this complaint on March 28, 2018.

We do not believe it is feasible to predict or determine the ultimate outcome or resolution of these litigations, or to estimate the amount of, or potential range of, loss with respect to these litigations. In addition, the timing of the final resolution of these litigations is uncertain. As a result of these litigations, we will incur litigation expenses and may incur indemnification expenses, and potential resolutions of the litigations could include settlements requiring payments. Those expenses could have a material impact on our financial position, results of operations, and cash flows.

Other Litigation, Claims and Proceedings. In addition, from time to time in the ordinary course of business we become involved in various lawsuits, claims and proceedings relating to the conduct of our business, including those pertaining to the defense and enforcement of our patent or other intellectual property rights. These proceedings are costly and time consuming. Successful challenges to our patent or other intellectual property rights through these proceedings could result in a loss of rights in the relevant jurisdiction and may allow third parties to use our proprietary technologies without a license from us or our collaborators.

Item 1A. Risk Factors

You should carefully consider the following risk factors, in addition to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. If any of the events described in the following risk factors occurs, our business, operating results and financial condition could be seriously harmed. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Quarterly Report on Form 10-Q.

Risks Related to Our Business

Our near-term prospects are substantially dependent on ADCETRIS. If we and/or Takeda are unable to effectively commercialize ADCETRIS for the treatment of patients in its approved indications and to continue to expand its labeled indications of use, our ability to generate significant revenue and our prospects for profitability will be adversely affected.

ADCETRIS is our only product approved for marketing and our ability to generate revenue from product sales and our prospects for profitability are substantially dependent on our ability to effectively commercialize ADCETRIS for the treatment of patients in its approved indications and our ability to continue to expand its labeled indications of use. We may not be able to fully realize the commercial potential of ADCETRIS for a number of reasons, including:

- we may be unable to effectively commercialize ADCETRIS in any new indications for which we receive marketing approval, including in the primary cutaneous anaplastic large cell lymphoma, or pcALCL, and CD30-expressing mycosis fungoides, or MF, indication approved in November 2017 and in the newly diagnosed, previously untreated Stage III and IV classical Hodgkin lymphoma indication approved in March 2018;
- we and/or Takeda Pharmaceutical Company Limited, or Takeda, our collaborator in the development and commercialization of ADCETRIS, may not be able to obtain and maintain regulatory approvals to market ADCETRIS in its currently approved indications or for any additional indications in our respective territories, including any indications for frontline mature T-cell lymphoma, or MTCL, or frontline Hodgkin lymphoma outside the U.S., which would limit sales of, and the commercial potential of, ADCETRIS;
- we may not be able to establish or demonstrate in the medical community the safety, efficacy, or value of ADCETRIS and its potential advantages compared to existing and future therapeutics in the Stage III or IV Hodgkin lymphoma setting and other settings;
- negative or inconclusive results in, or delays in, our ECHELON-2 trial, which would negatively impact, or preclude altogether, our and Takeda's ability to obtain regulatory approvals and commercialize ADCETRIS in the frontline MTCL indication in our respective territories and which would also limit sales of, and the commercial potential of, ADCETRIS;
- new competitive therapies, including immuno-oncology agents such as PD-1 inhibitors (e.g., nivolumab and pembrolizumab), have been approved by regulatory authorities or may be submitted in the near term to regulatory authorities for approval in ADCETRIS' labeled indications, and these competitive products could negatively impact our commercial sales of ADCETRIS;
- our commercial sales of ADCETRIS could be lower than our projections due to a lower market penetration rate, increased competition by alternative products or biosimilars, or a shorter duration of therapy in patients in ADCETRIS' approved indications;
- there may be additional changes to the label for ADCETRIS, including ADCETRIS' boxed warning, that further restrict how we market and sell ADCETRIS, including as a result of data collected from any of the clinical trials that we and/or Takeda are conducting or may in the future conduct for ADCETRIS, including investigator-sponsored studies and in the post-approval confirmatory studies that Takeda is required to conduct as a condition to the conditional marketing authorization of ADCETRIS granted by the European Commission;
- the estimated incidence rate of new patients in ADCETRIS' approved indications may be lower than our projections;

- there may be adverse results or events reported in any of the clinical trials that we and/or Takeda are conducting or may in the future conduct for ADCETRIS;
- we may be unable to continue to effectively market, sell and distribute ADCETRIS;
- ADCETRIS may be impacted by adverse reimbursement and coverage policies from government and private payors such as Medicare, Medicaid, insurance companies, health maintenance organizations and other plan administrators, or may be subject to pricing pressures enacted by industry organizations or state and federal governments, including as a result of increased scrutiny over pharmaceutical pricing or otherwise;
- the relative price of ADCETRIS may be higher than alternative treatment options, and therefore its reimbursement may be limited by private and governmental insurers;
- physicians may be reluctant to prescribe ADCETRIS due to side effects associated with its use or until long term efficacy and safety data exist;
- there may be changed or increased regulatory restrictions;
- we may not have adequate financial or other resources to effectively commercialize ADCETRIS; and
- we may not be able to obtain adequate commercial supplies of ADCETRIS to meet demand or at an acceptable cost.

In 2009, we entered into an agreement with Takeda to develop and commercialize ADCETRIS, under which we have commercial rights in the United States and its territories and Canada, and Takeda has commercial rights in the rest of the world. The success of this collaboration and the activities of Takeda will significantly impact the commercialization of ADCETRIS in countries other than the United States and in Canada. In October 2012, Takeda announced that it had received conditional marketing authorization for ADCETRIS from the European Commission for patients with relapsed Hodgkin lymphoma or relapsed systemic anaplastic large cell lymphoma, or sALCL, and has since obtained marketing approvals for ADCETRIS in many other countries. Conditional marketing authorization by the European Commission includes obligations to provide additional clinical data at a later stage to confirm the positive benefit-risk balance. In July 2016, Takeda announced that it had received marketing authorization for ADCETRIS from the European Commission for the treatment of adult patients with CD30-positive Hodgkin lymphoma at increased risk of relapse or progression following autologous stem cell transplant, and in January 2018, Takeda announced that it had received marketing authorization for ADCETRIS from the European Commission for the treatment of adult patients with CD30-positive cutaneous T-cell lymphoma, or CTCL, after at least one prior systemic therapy. We cannot control the amount and timing of resources that Takeda dedicates to the commercialization of ADCETRIS, or to its marketing and distribution, and our ability to generate revenues from ADCETRIS product sales by Takeda depends on Takeda's ability to achieve market acceptance of, and to otherwise effectively market, ADCETRIS for its approved indications in Takeda's territory.

While ADCETRIS product sales have grown over time, and our future plans assume that sales of ADCETRIS will increase, we cannot assure you that, even with the recent expansions to the prescribing label for ADCETRIS in the United States, which now includes the treatment of adult patients with pcALCL and CD30-expressing MF who have received prior systemic therapy and newly diagnosed patients with previously untreated Stage III and IV classical Hodgkin Lymphoma, ADCETRIS sales will continue to grow or that we can maintain sales of ADCETRIS at or near current levels. We also expect that our ability to accelerate ADCETRIS sales growth, if at all, will depend primarily on our ability to establish or demonstrate in the medical community the value of ADCETRIS and its potential advantages compared to existing and future therapeutics in newly diagnosed patients with previously untreated Stage III and IV classical Hodgkin lymphoma, and physician prescribing decisions with respect to ADCETRIS in this indication. Our ability to accelerate ADCETRIS sales growth will also be affected by our ability to further expand ADCETRIS's labeled indications of use, particularly in the frontline MTCL indication. Negative or inconclusive results in our ECHELON-2 trial would negatively impact, or preclude altogether, our and Takeda's ability to obtain regulatory approvals in the frontline MTCL indication in our respective territories, which would also limit our sales of, and the commercial potential of, ADCETRIS. Moreover, the Special Protocol Assessment, or SPA, agreement for the ECHELON-2 trial requires that the trial continue until a specified number of progression-free survival, or PFS, events designated for the trial occurs. Based on reviews of pooled, blinded data, we have observed a lower rate of reported PFS events in the ECHELON-2 trial than anticipated. We are discussing with the United States Food and Drug Administration, or FDA, the potential to unblind the trial prior to achieving the target number of PFS events specified in the SPA agreement. If we are

unable to reach agreement with the FDA regarding modifications to the trial and determine to unblind the trial prior to achieving the target number of PFS events as specified in the SPA agreement, the FDA could treat the SPA agreement for ECHELON-2 trial as rescinded. In that event, we would no longer have commitments from the FDA regarding the appropriate design, size and endpoints of the study for regulatory approval, making our ability to obtain regulatory approval of ADCETRIS in the ECHELON-2 treatment setting more uncertain. In addition, earlier unblinding in the ECHELON-2 trial could also negatively impact the likelihood of achieving positive results in the trial sufficient to support regulatory approval. Alternatively, if we are unable to reach agreement with the FDA, we could determine to continue the ECHELON-2 trial until the target number of PFS events specified in the SPA agreement is achieved, which could result in a substantial delay in our ability to conduct the final data analysis from the ECHELON-2 trial. Takeda may also be unable to obtain regulatory approvals of ADCETRIS in the ECHELON-1 treatment setting in its territories, which would limit their sales of, and the commercial potential of, ADCETRIS.

We and Takeda have formed a collaboration with Ventana under which Ventana is working to develop, manufacture and commercialize a companion diagnostic test with the goal of identifying patients who might respond to treatment with ADCETRIS based on CD30 expression levels in their tissue specimens. The FDA and similar regulatory authorities outside the United States regulate companion diagnostics. Companion diagnostics require separate or coordinated regulatory approval prior to commercialization of the related therapeutic product. In this regard, we expect that concurrent approval of a CD30 companion diagnostic will be required for any approval of ADCETRIS in the frontline MTCL indication. However, Ventana may not be able to successfully develop and obtain regulatory approval for a companion diagnostic to support regulatory approval of ADCETRIS in the frontline MTCL indication in a timely manner or at all. If Ventana is unable to successfully develop a companion diagnostic, or experiences delays in doing so, the development of ADCETRIS in the frontline MTCL indication may be adversely affected, we may fail to receive regulatory approval for ADCETRIS in the frontline MTCL indication and we may not realize the full commercial potential of ADCETRIS. Further, if a companion diagnostic requirement were included in the ADCETRIS label, such a requirement may limit our ability to commercialize ADCETRIS in the applicable setting due to potential label requirements, prescriber practices, constraints on availability of the diagnostic, or other factors.

Even if we and Takeda receive the required regulatory approvals to market ADCETRIS for any additional indications or in additional jurisdictions, we and Takeda may not be able to effectively commercialize ADCETRIS, including for the reasons set forth above. Our ability to grow ADCETRIS product sales in future periods is also dependent on price increases and we periodically increase the price of ADCETRIS. Price increases on ADCETRIS and negative publicity regarding drug pricing and price increases generally, whether on ADCETRIS or products distributed by other pharmaceutical companies, could negatively affect market acceptance of, and sales of, ADCETRIS. In any event, we cannot assure you that price increases we have taken or may take in the future will not in the future negatively affect ADCETRIS sales.

Reports of adverse events or safety concerns involving ADCETRIS or our product candidates could delay or prevent us from obtaining or maintaining regulatory approvals, or could negatively impact sales of ADCETRIS or the prospects for our product candidates.

Reports of adverse events or safety concerns involving ADCETRIS could interrupt, delay or halt clinical trials of ADCETRIS, including the post-approval confirmatory studies that Takeda is required to conduct as a condition to the conditional marketing authorization of ADCETRIS by the European Commission. For example, during 2013 concerns regarding pancreatitis caused an investigator conducting an independent study involving ADCETRIS to temporarily halt enrollment in the trial and to amend the eligibility criteria and monitoring for the trial. Subsequently, we have revised our prescribing information to add pancreatitis as a known adverse event. In addition, reports of adverse events or safety concerns involving ADCETRIS could result in regulatory authorities limiting, denying or withdrawing approval of ADCETRIS for any or all indications, including the use of ADCETRIS for the treatment of patients in its approved indications. For example, there was an increased incidence of febrile neutropenia and peripheral neuropathy in the ADCETRIS plus AVD arm of the ECHELON-1 trial, which could limit prescribing of ADCETRIS for newly diagnosed patients with previously untreated Stage III and IV classical Hodgkin lymphoma and negatively impact sales of ADCETRIS or adversely affect ADCETRIS' acceptance in the market. There are no assurances that patients receiving ADCETRIS will not experience serious adverse events in the future. Further, there are no assurances that patients receiving ADCETRIS with co-morbid diseases not previously studied, such as autoimmune diseases, will not experience new or different serious adverse events in the future.

Adverse events may negatively impact the sales of ADCETRIS. We may be required to further update the ADCETRIS prescribing information, including boxed warnings, based on reports of adverse events or safety concerns or implement a Risk Evaluation and Mitigation Strategy, or REMS, which could adversely affect ADCETRIS' acceptance in the market, make competition easier or make it more difficult or expensive for us to distribute ADCETRIS. For example, the prescribing information for ADCETRIS includes pancreatitis, impaired hepatic function, impaired renal function, pulmonary toxicity, and gastrointestinal complications as known adverse events as well as a boxed warning related to the risk that JC virus infection resulting in progressive multifocal leukoencephalopathy, or PML, and death can occur in patients receiving ADCETRIS. Further, based on the identification

of future adverse events, we may be required to further revise the prescribing information, including ADCETRIS' boxed warning, which could negatively impact sales of ADCETRIS or adversely affect ADCETRIS' acceptance in the market.

Likewise, reports of adverse events or safety concerns involving ADCETRIS or our product candidates could interrupt, delay or halt clinical trials of such product candidates, or could result in our inability to obtain regulatory approvals for any of our product candidates. For example, in June 2017, we discontinued the phase 3 CASCADE clinical trial of SGN-CD33A based on unexpected adverse events following a higher rate of deaths in the SGN-CD33A containing arm versus the control arm of this trial, and the Investigational New Drug application, or IND, for SGN-CD33A was subsequently placed on hold by the FDA. As a result of recent portfolio and resource prioritization decisions, we have discontinued our SGN-CD33A program altogether, and as a result, we do not expect to receive any return on our investment in SGN-CD33A.

In addition, we are planning to conduct or are conducting pivotal trials for enfortumab vedotin, tucatinib and tisotumab vedotin based on only limited phase 1 clinical data. There may be important facts about the safety, efficacy, and risk versus benefit of these product candidates that are not known to us at this time which may negatively impact our ability to develop and commercialize these product candidates. In addition, in response to safety events observed in our ongoing clinical trials of enfortumab vedotin and tisotumab vedotin, including patient deaths, we have in the past, and may in the future, institute additional precautionary safety measures such as dosing caps and delays, enhanced monitoring for side effects, and modified patient inclusion and exclusion criteria. Additional and/or unexpected safety events could be observed in these pivotal or other later stage trials that could delay or prevent us from advancing the clinical development of enfortumab vedotin, tucatinib or tisotumab vedotin and may adversely affect our business, results of operations and prospects.

Concerns regarding the safety of ADCETRIS or our product candidates as a result of undesirable side effects identified during clinical testing or otherwise could cause the FDA to order us to cease further development or commercialization of ADCETRIS or the applicable product candidate. Undesirable side effects caused by ADCETRIS or our product candidates could also result in denial of regulatory approval by the FDA or other regulatory authorities for any or all targeted indications, the requirement of additional trials or the inclusion of unfavorable information in our product labeling, and in turn delay or prevent us from commercializing ADCETRIS or the applicable product candidate. In addition, actual or potential drug-related side effects could affect patient recruitment or the ability of enrolled patients to complete a trial for ADCETRIS or our product candidates or result in potential product liability claims. Any of these events could prevent us from developing or commercializing ADCETRIS or the particular product candidate, and could significantly harm our business, results of operations and prospects.

Even though we and Takeda have obtained regulatory approvals to market ADCETRIS, we and Takeda are subject to extensive ongoing regulatory obligations and review, including post-approval requirements that could result in the withdrawal of ADCETRIS from certain geographic markets in certain indications if such requirements are not met.

ADCETRIS is approved for treating patients in the relapsed sALCL and relapsed Hodgkin lymphoma indications with conditions in Canada, and approved under conditional marketing authorization in relapsed Hodgkin lymphoma and sALCL in Europe, in each case under regulations which allow for approval of products for cancer or other serious or life threatening illnesses based on a surrogate endpoint or on a clinical endpoint other than survival or irreversible morbidity. Under these types of approvals, Takeda is subject to certain post-approval requirements, including the requirement to conduct clinical trials to confirm clinical benefit. In Canada, the ECHELON-1 results may be sufficient to confirm the clinical benefit of ADCETRIS in relapsed Hodgkin lymphoma, and the ECHELON-2 results may be sufficient to confirm the clinical benefit of ADCETRIS in relapsed sALCL. In Europe, there are other post approval requirements to convert the conditional marketing authorization for ADCETRIS in relapsed Hodgkin lymphoma and relapsed sALCL into a standard marketing authorization. Takeda's failure to provide these additional clinical data from confirmatory studies could result in the European Commission withdrawing approval of ADCETRIS in the European Union for certain indications, which would negatively impact anticipated royalty revenue from ADCETRIS sales by Takeda in the European Union and could adversely affect our results of operations.

In addition, we are subject to extensive ongoing obligations and continued regulatory review from applicable regulatory agencies with respect to any product for which we have obtained regulatory approval, including ADCETRIS in each of its approved indications, such as continued adverse event reporting requirements and the requirement to have some of our promotional materials pre-cleared by the FDA. There may also be additional post-marketing obligations, all of which may result in significant expense and limit our ability to commercialize ADCETRIS in the United States, Canada or potentially other jurisdictions.

We and the manufacturers of ADCETRIS are also required to comply with current Good Manufacturing Practices, or cGMP, regulations, which include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation. Further, regulatory agencies must approve these manufacturing facilities before they can be used to manufacture ADCETRIS, and these facilities are subject to ongoing regulatory inspections. In addition, regulatory agencies subject an

approved product, its manufacturer and the manufacturer's facilities to continual review and inspections, including periodic unannounced inspections. The subsequent discovery of previously unknown problems with ADCETRIS, including adverse events of unanticipated severity or frequency, or problems with the facilities where ADCETRIS is manufactured, may result in restrictions on the marketing of ADCETRIS, up to and including withdrawal of ADCETRIS from the market. If our manufacturing facilities or those of our suppliers fail to comply with applicable regulatory requirements, such noncompliance could result in regulatory action and additional costs to us.

Failure to comply with applicable FDA and other regulatory requirements may subject us to administrative or judicially imposed sanctions, including:

- issuance of Form FDA 483 notices or Warning Letters by the FDA or other regulatory agencies;
- imposition of fines and other civil penalties;
- criminal prosecutions;
- injunctions, suspensions or revocations of regulatory approvals;
- suspension of any ongoing clinical trials;
- total or partial suspension of manufacturing;
- delays in commercialization;
- refusal by the FDA to approve pending applications or supplements to approved applications submitted by us;
- refusals to permit drugs to be imported into or exported from the United States;
- restrictions on operations, including costly new manufacturing requirements; and
- product recalls or seizures.

The policies of the FDA and other regulatory agencies may change and additional government regulations may be enacted that could prevent or delay regulatory approval of ADCETRIS in any additional indications or further restrict or regulate post-approval activities. We cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are not able to maintain regulatory compliance, we or Takeda might not be permitted to market ADCETRIS and our business would suffer.

If we or our collaborators are not able to obtain or maintain required regulatory approvals, we or our collaborators will not be able to successfully commercialize ADCETRIS or our product candidates.

The research, testing, manufacturing, labeling, approval, selling, marketing and distribution of drug products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. Neither we nor our collaborators are permitted to market our product candidates in the United States or foreign countries until we obtain marketing approval from the FDA or other foreign regulatory authorities, and we or our collaborators may never receive regulatory approval for the commercial sale of any of our product candidates. In addition, part of our strategy is to continue to explore the use of ADCETRIS in the treatment of MTCL and in other CD30-expressing lymphomas, and we are currently conducting multiple clinical trials for ADCETRIS. However, we and/or Takeda may be unable to obtain or maintain any regulatory approvals for the commercial sale of ADCETRIS for any additional indications. Obtaining marketing approval is a lengthy, expensive and uncertain process and approval is never assured, and we have only limited experience in preparing and submitting the applications necessary to gain regulatory approvals. Further, the FDA and other foreign regulatory agencies have substantial discretion in the approval process, and determining when or whether regulatory approval will be obtained for any product candidate we develop, including any regulatory approvals for the potential commercial sale of ADCETRIS in additional indications or in any additional territories. In this regard, even if we believe the data collected from clinical trials of ADCETRIS and our product candidates are promising, such data may not be sufficient to support approval by the FDA or any other foreign regulatory authority. In addition, the FDA or their advisors may disagree with our interpretations of data from preclinical studies and clinical trials. Moreover, even though

our ECHELON-2 trial is being conducted under a SPA agreement with the FDA, this is not a guarantee or indication of approval, and we cannot be certain that the design of, or data collected from, any of our current or potential future clinical trials that were or are being conducted under SPA agreements with the FDA will be sufficient to support FDA approval. Further, a SPA agreement is not binding on the FDA if public health concerns unrecognized at the time the SPA agreement is entered into become evident, other new scientific concerns regarding product safety or efficacy arise, new drugs are approved in the same indication, or if we have failed to comply with the agreed upon trial protocols, including as a result of completing a clinical trial with fewer events than planned. In addition, a SPA agreement may be changed by us or the FDA on written agreement of both parties, and the FDA retains significant latitude and discretion in interpreting the terms of a SPA agreement and the data and results from the applicable clinical trial. Regulatory agencies also may approve a product candidate for fewer or narrower indications than requested, or with a label that includes only subtypes of a particular indication rather than a more general disease classification. For example, the label approved by the FDA based on our phase 3 ALCANZA trial covered only pcALCL and CD30-expressing MF, which are two subtypes of CTCL. Additionally, the FDA may grant approval subject to the performance of post-approval studies or REMS for a product candidate. Similarly, regulatory agencies may not approve the labeling claims that are necessary or desirable for the successful commercialization of ADCETRIS in additional indications.

In addition, changes in regulatory requirements and guidance may occur and we may need to amend clinical trial protocols and/or related SPA agreements to reflect these changes. Amendments may require us to resubmit our clinical trial protocols to institutional review boards, or IRBs, for reexamination, which may impact the costs, timing or successful completion of a clinical trial. In addition, as part of the U.S. Prescription Drug User Fee Act, or PDUFA, the FDA has a goal to review and act on a percentage of all regulatory submissions in a given time frame. However, the FDA does not always meet its PDUFA targeted action dates and if the FDA were to fail to meet a PDUFA targeted action date in the future for ADCETRIS or any of our product candidates, the commercialization of the affected product candidate or of ADCETRIS in any additional indications could be delayed or impaired. Due to these and other factors, ADCETRIS and our product candidates could take a significantly longer time to gain regulatory approvals than we expect or may never gain new regulatory approvals, which could delay or eliminate any potential product revenue from sales of our product candidates or of ADCETRIS in any additional indications, which could significantly delay or prevent us from achieving profitability.

The successful commercialization of ADCETRIS and our product candidates will depend in part on the extent to which governmental authorities and health insurers establish adequate coverage and reimbursement levels and pricing policies.

Successful sales of ADCETRIS and any future products will depend, in part, on the extent to which coverage and reimbursement for our products will be available from government and health administration authorities, private health insurers and other third-party payors. To manage healthcare costs, many governments and third-party payors increasingly scrutinize the pricing of new products and require greater levels of evidence of favorable clinical outcomes and cost-effectiveness before extending coverage. In light of such challenges to prices, we cannot be sure that we will achieve and continue to have coverage available for ADCETRIS and any other product candidate that we commercialize and, if available, that the reimbursement rates will be adequate. If we are unable to obtain coverage and adequate levels of reimbursement for ADCETRIS and any other product candidates that we commercialize, their marketability will be negatively and materially impacted. For example, even though we have obtained approval of our Supplemental Biologics License Application, or SBLA, submission to the FDA to expand the labeled indications of use for ADCETRIS to newly diagnosed patients with previously untreated Stage III and IV classical Hodgkin lymphoma based on our ECHELON-1 trial data, we cannot be certain that third-party payors will provide coverage and adequate reimbursement for ADCETRIS in that indication based on the relative price or perceived benefit of ADCETRIS as compared to alternative treatment options, which may materially harm our ability to maintain or increase sales of ADCETRIS or may otherwise negatively affect future ADCETRIS sales.

Moreover, eligibility for coverage and reimbursement does not imply that a drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. In addition, obtaining and maintaining adequate coverage and reimbursement status is time-consuming and costly. Third-party payors may deny coverage and reimbursement status altogether of a given drug product, or cover the product but may also establish prices at levels that are too low to enable us to realize an appropriate return on our investment in product development. Further, in the United States, there is no uniform policy of coverage and reimbursement among third-party payors. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own coverage and reimbursement policies. However, decisions regarding the extent of coverage and amount of reimbursement to be provided is be made on a payor-by-payor basis. One payor's determination to provide coverage for a product does not assure that other payors will also provide coverage for the product. Because the rules and regulations regarding coverage and reimbursement change frequently, in some cases at short notice, even when there is favorable coverage and reimbursement, future changes may occur that adversely impact the favorable status.

The unavailability or inadequacy of third-party coverage and reimbursement could have a material adverse effect on the market acceptance of ADCETRIS and any of our future products and the future revenues we may expect to receive from those products. In addition, we are unable to predict what additional legislation or regulation relating to the healthcare industry or third-party coverage and reimbursement may be enacted in the future, or what effect such legislation or regulation would have on our business. Continuing negative publicity regarding pharmaceutical pricing practices and ongoing presidential and Congressional focus on this issue create significant uncertainty regarding regulation of the healthcare industry and third-party coverage and reimbursement. If healthcare policies or reforms intended to curb healthcare costs are adopted or if we experience negative publicity with respect to pricing of ADCETRIS or the pricing of pharmaceutical products generally, the prices that we charge for ADCETRIS and any future approved products may be limited, our commercial opportunity may be limited and/or our revenues from sales of ADCETRIS and any future approved products may be negatively impacted.

Healthcare law and policy changes may have a material adverse effect on us.

In March 2010, the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively PPACA, became law in the United States. PPACA substantially changed the way healthcare is financed by both governmental and private insurers and significantly affects the pharmaceutical industry. The provisions of PPACA of greatest importance to the pharmaceutical industry include increased Medicaid rebates, expanded Medicaid eligibility, extension of Public Health Service eligibility, annual fees payable by manufacturers and importers of branded prescription drugs, annual reporting of financial relationships with physicians and teaching hospitals, and a new Patient-Centered Outcomes Research Institute. Many of these provisions have had the effect of reducing the revenue generated by our sales of ADCETRIS and will have the effect of reducing any revenue generated by sales of any future commercial products we may have.

Certain provisions of the PPACA have been subject to judicial and Congressional challenges, as well as efforts by the Trump administration to repeal or replace certain aspects of the PPACA. For example, since January 20, 2017, President Trump has signed two Executive Order and other directives designed to delay the implementation of certain provision of the PPACA or otherwise circumvent some of the requirements for health insurance mandated by the PPACA. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the PPACA. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the PPACA have been signed into law. The Tax Cuts and Jobs Act of 2017, includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the PPACA on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate." Additionally, on January 22, 2018, President Trump signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain PPACA-mandated fees, including the so-called "Cadillac" tax on certain high cost employer-sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. Further, the Bipartisan Budget Act of 2018, or the BBA, among other things, amends the PPACA, effective January 1, 2019, to increase from 50 percent to 70 percent the point-of-sale discount that is owed by pharmaceutical manufacturers who participate in Medicare Part D and to close the coverage gap in most Medicare drug plans, commonly referred to as the "donut hole". In addition, citing legal guidance from the U.S. Department of Justice, the U.S. Department of Health and Human Services, has concluded that cost-sharing reduction, or CSR, payments to insurance companies required under the PPACA have not received necessary appropriations from Congress and announced that it will discontinue these payments immediately until such appropriations are made. The loss of the CSR payments is expected to increase premiums on certain policies issued by qualified health plans under the PPACA. While Congress is considering legislation to appropriate funds for CSR payments the future of that legislation is uncertain. We continue to evaluate the effect that the PPACA and its possible repeal and replacement has on our business.

Further, on March 23, 2018, the Centers for Medicare & Medicaid Services, or CMS, finalized updates to the National Drug Rebate Agreement, or Agreement, for the first time in 27 years, to incorporate legislative and regulatory changes that have occurred since the Agreement was first published. These updates align the Agreement with certain provisions of PPACA and contain additional changes incorporating CMS policies adopted over the years. Among other changes made in CMS' updates, drug manufacturers with existing Agreements will have until October 1, 2018, to sign the revised Agreement, otherwise their existing Agreement will be terminated. In order to have ADCETRIS, or any future approved product, covered under Medicaid, and Medicare Part B, we are required to enter into the revised Agreement with CMS. If we fail to comply with the requirements to enter into the new Agreement, we will be unable to obtain, and maintain, Medicaid and Medicare Part B coverage and reimbursement, which could negatively affect our financial condition and results of operations.

We anticipate that the PPACA, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and an additional downward pressure on the price that we receive for ADCETRIS or any future approved product, which may harm our business. For example, increased discounts, rebates or chargebacks may be mandated by governmental or private insurers or fee caps and pricing pressures could be enacted by industry organizations or state and federal governments, any

of which could significantly affect the revenue generated by sales of our products, including ADCETRIS. In addition, drug-pricing by pharmaceutical companies has come under increased scrutiny. Specifically, there have been several recent U.S. Congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to drug pricing by requiring drug companies to notify insurers and government regulators of price increases and to provide an explanation as to the reasons for the increase, reduce the out-of-pocket cost of prescription drugs, review the relationship between pricing and manufacturer patient programs and reform government program reimbursement methodologies for drugs. At the federal level, the Trump administration's budget proposal for fiscal year 2019 contains further drug price control measures that could be enacted during the 2019 budget process or in other future legislation, including, for example, measures to permit Medicare Part D plans to negotiate the price of certain drugs under Medicare Part B, to allow some states to negotiate drug prices under Medicaid, and to eliminate cost sharing for generic drugs for low-income patients. While any proposed measures will require authorization through additional legislation to become effective, Congress and the Trump administration have each indicated that it will continue to seek new legislative and/or administrative measures to control drug costs. At the state level, legislatures are increasingly passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. We expect further federal and state legislation and healthcare reforms to continue to be proposed to control increasing healthcare costs and to control the rising cost of prescription drugs. These proposals, if implemented, could limit the price for ADCETRIS or any future approved products. Commercial opportunity could be negatively impacted by legislative action that controls pricing, mandates price negotiations, or increases government discounts and rebates.

Also, price increases on ADCETRIS and negative publicity regarding drug pricing and price increases generally, whether on ADCETRIS or products distributed by other pharmaceutical companies, could negatively affect market acceptance of, and sales of, ADCETRIS. In addition, although ADCETRIS is approved in the European Union, Japan and other countries outside of the United States, government austerity measures or further healthcare reform measures and pricing pressures in other countries could adversely affect demand and pricing for ADCETRIS, which would negatively impact anticipated royalty revenue from ADCETRIS sales by Takeda.

Other legislative changes have also been proposed and adopted since PPACA was enacted. The Budget Control Act of 2011, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals in spending reductions. The Joint Select Committee did not achieve a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, triggering the legislation's automatic reduction to several government programs. This includes a 2% reduction in Medicare provider payments paid under Medicare Part B to physicians for physician-administered drugs, such as certain oncology drugs, which went into effect in April 2013 and, due to subsequent legislative amendments to the statute, including the BBA, will remain in effect through 2027 unless additional Congressional action is taken. The American Taxpayer Relief Act of 2012, among other things, reduced Medicare payments to several providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. In addition, legislation has been proposed to shorten the period of biologic data and market exclusivity granted by the FDA. If such legislation is enacted, we may face competition from biosimilars of ADCETRIS or any future approved products earlier than otherwise would have occurred. Increased competition may negatively impact coverage and pricing of ADCETRIS, which could negatively affect our financial condition or results of operations.

We expect to experience pricing pressures in connection with the sale of ADCETRIS due to the trend toward managed healthcare, and additional legislative proposals. For example, the PPACA increased the mandated Medicaid rebate from 15.1% to 23.1%, expanded the rebate to Medicaid managed care utilization and increased the types of entities eligible for the federal 340B drug discount program. On January 30, 2017, the White House Office of Management and Budget withdrew the draft August 2015 Omnibus Guidance document that was issued by the Department of Health and Human Services Health Resources and Services Administration, or HRSA, that addressed a broad range of topics including, among other items, the definition of a patient's eligibility for 340B drug pricing. However, as concerns continue to grow over the need for tighter oversight, there remains the possibility that HRSA or other agency under the Department of Health and Human Services, or HHS, will propose a similar regulation or that Congress will explore changes to the 340B program through legislation. For example, the CMS has issued a proposed rule that would revise the Medicare hospital outpatient prospective payment system, including a new reimbursement methodology for drugs purchased under the 340B program for Medicare patients. In addition, HHS has currently set July 1, 2018 for implementation of the final rule setting forth the calculation of the ceiling price and application of civil monetary penalties under the 340B program. A significant portion of ADCETRIS purchases are eligible for 340B drug pricing, and therefore an expansion of the 340B program or reduction in 340B pricing, whether in the form of the final rule or otherwise, would likely have a negative impact on our net sales of ADCETRIS.

We cannot predict what healthcare reform initiatives may be adopted in the future. However, we anticipate that Congress, state legislatures, and third-party payors may continue to review and assess alternative healthcare delivery and payment systems and may in the future propose and adopt legislation or policy changes or implementations effecting additional fundamental changes in the healthcare delivery system. We also expect ongoing initiatives to increase pressure on drug pricing. We cannot assure you as to the

ultimate content, timing, or effect of changes, nor is it possible at this time to estimate the impact of any such potential legislation; however, such changes or the ultimate impact of changes could negatively affect our revenue or sales of ADCETRIS or any potential future approved products.

Enhanced governmental and private scrutiny over, or investigations or litigation involving, pharmaceutical manufacturer donations to patient assistance programs offered by charitable foundations may require us to modify our programs and could negatively impact our business practices, harm our reputation, divert the attention of management and increase our expenses.

To help patients afford our products, we have a patient assistance program and also occasionally make donations to independent charitable foundations that help financially needy patients. These types of programs designed to assist patients in affording pharmaceuticals have become the subject of scrutiny. In recent years, some pharmaceutical manufacturers were named in class action lawsuits challenging the legality of their patient assistance programs and support of independent charitable patient support foundations under a variety of federal and state laws. At least one insurer also has directed its network pharmacies to no longer accept manufacturer co-payment coupons for certain specialty drugs the insurer identified. Our patient assistance program and support of independent charitable foundations could become the target of similar litigation.

In addition, there has been regulatory review and enhanced government scrutiny of donations by pharmaceutical companies to patient assistance programs operated by charitable foundations. For example, the Office of Inspector General of the U.S. Department of Health & Human Services, or OIG, has established specific guidelines permitting pharmaceutical manufacturers to make donations to charitable organizations who provide co-pay assistance to Medicare patients, provided that such organizations are bona fide charities, are entirely independent of and not controlled by the manufacturer, provide aid to applicants on a first-come basis according to consistent financial criteria, and do not link aid to use of a donor's product. If we or our vendors or donation recipients are deemed to fail to comply with laws or regulations in the operation of these programs, we could be subject to damages, fines, penalties or other criminal, civil or administrative sanctions or enforcement actions. Further, numerous organizations, including pharmaceutical manufacturers, have received subpoenas from the OIG and other enforcement authorities seeking information related to their patient assistance programs and support. We cannot ensure that our compliance controls, policies and procedures will be sufficient to protect against acts of our employees, business partners or vendors that may violate the laws or regulations of the jurisdictions in which we operate. Regardless of whether we have complied with the law, a government investigation could negatively impact our business practices, harm our reputation, divert the attention of management and increase our expenses.

Clinical trials are expensive and time consuming, may take longer than we expect or may not be completed at all, and their outcome is uncertain.

We are currently conducting multiple clinical trials for ADCETRIS and our product candidates and we plan to commence additional trials of ADCETRIS and our product candidates in the future. In this regard, we are conducting a pivotal phase 2 trial of enfortumab vedotin, called the EV-201 trial, with Astellas for locally advanced or metastatic urothelial cancer patients who have been previously treated with checkpoint inhibitor, or CPI, therapy, a pivotal phase 2 trial of tucatinib for patients with HER2-positive, or HER2+, metastatic breast cancer, including patients with or without brain metastases, which we refer to as the HER2CLIMB trial, and are planning to conduct a pivotal phase 2 trial of tisotumab vedotin with Genmab in patients with recurrent and/or metastatic cervical cancer, in each case based on only limited phase 1 clinical data. Enfortumab vedotin, tucatinib and tisotumab vedotin have not previously been evaluated in later stage clinical trials and we cannot be certain that the design of, or data collected from, these trials will be adequate to demonstrate the safety and efficacy of enfortumab vedotin, tucatinib or tisotumab vedotin, or will otherwise be sufficient to support FDA or any foreign regulatory approvals. In addition, we do not have SPA agreements with the FDA for any of these ongoing or planned pivotal trials.

Each of our clinical trials requires the investment of substantial expense and time and the timing of the commencement, continuation and completion of these clinical trials may be subject to significant delays relating to various causes, including scheduling conflicts with participating clinicians and clinical institutions, difficulties in identifying and enrolling patients who meet trial eligibility criteria, failure of patients to complete the clinical trial, delays in accumulating the required number of clinical events for data analyses, delay or failure to obtain IRB approval to conduct a clinical trial at a prospective site, and shortages of available drug supply. For example, the SPA agreement for the ECHELON-2 trial requires that the trial continue until a specified number of PFS events designated for the trial occurs. Based on reviews of pooled, blinded data, we have observed a lower rate of reported PFS events than anticipated. We are discussing with the FDA the potential to unblind the trial prior to achieving the target number of PFS events specified in the SPA agreement. If we are unable to reach agreement with the FDA regarding modifications to the trial and determine to unblind the trial prior to achieving the target number of PFS events as specified in the SPA agreement, the FDA could treat the SPA agreement for ECHELON-2 trial as rescinded. In that event, we would no longer have commitments from the FDA regarding the appropriate design, size and endpoints of the study for regulatory approval, making our ability to obtain regulatory approval of ADCETRIS in the ECHELON-2 treatment setting more uncertain. In addition, earlier unblinding in the ECHELON-2 trial could also negatively impact the likelihood of achieving positive results in the trial sufficient to support regulatory approval. Alternatively, if we are unable to reach

agreement with the FDA, we could determine to continue the ECHELON-2 trial until the target number of PFS events specified in the SPA agreement is achieved, which could result in a substantial delay in our ability to conduct the final data analysis from the ECHELON-2 trial.

Additionally, patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the existence of competing clinical trials, perceived side effects and the availability of alternative or new treatments. Many of our future and ongoing clinical trials are being or will be coordinated or conducted with Takeda, Astellas, Genmab and other collaborators, which may delay the commencement or affect the continuation or completion of these trials. From time to time, we have experienced enrollment-related delays in clinical trials and we will likely continue to experience similar delays in our current and future trials. We depend on medical institutions and clinical research organizations, or CROs, to conduct some of our clinical trials in compliance with Good Clinical Practice, or GCP, and to the extent they fail to enroll patients for our clinical trials, fail to conduct our trials in accordance with GCP, or are delayed for a significant time in achieving full enrollment, we may be affected by increased costs, program delays or both, which may harm our business. In addition, we conduct clinical trials in foreign countries which may subject us to further delays and expenses as a result of increased drug shipment costs, additional regulatory requirements and the engagement of foreign CROs, as well as expose us to risks associated with less experienced clinical investigators who are unknown to the FDA, different standards of medical care, and foreign currency transactions insofar as changes in the relative value of the U.S. dollar to the foreign currency where the trial is being conducted may impact our actual costs.

Clinical trials must be conducted in accordance with FDA or other applicable foreign government guidelines and are subject to oversight by the FDA, other foreign governmental agencies, including data protection authorities, the data safety monitoring boards for such trials and the IRBs or Ethics Committees for the institutions in which such trials are being conducted. In addition, clinical trials must be conducted with supplies of ADCETRIS or our product candidates produced under cGMP and other requirements in foreign countries, and may require large numbers of test patients. We or our collaborators, the FDA, other foreign governmental agencies or the applicable data safety monitoring boards, IRBs and Ethics Committees could delay, suspend, halt or modify our clinical trials of ADCETRIS or any of our product candidates, and we, our collaborators and/or the FDA could terminate or modify any related SPA agreements, for numerous reasons, including:

- ADCETRIS or the applicable product candidate may have unforeseen safety issues or adverse side effects, including fatalities, or a determination may be made that a clinical trial presents unacceptable health risks;
- deficiencies in the conduct of the clinical trial, including failure to conduct the clinical trial in accordance with regulatory requirements, GCP, clinical protocols or regulations relating to data protection;
- problems, errors or other deficiencies with respect to data collection, data processing and analysis;
- deficiencies in the clinical trial operations or trial sites resulting in the imposition of a clinical hold;
- the time required to determine whether ADCETRIS or the applicable product candidate is effective may be longer than expected;
- fatalities or other adverse events arising during a clinical trial due to medical problems that may not be related to clinical trial treatments;
- ADCETRIS or the applicable product candidate may not appear to be more effective than current therapies;
- the quality or stability of ADCETRIS or the applicable product candidate may fall below acceptable standards;
- our inability and the inability of our collaborators to produce or obtain sufficient quantities of ADCETRIS or the applicable product candidate to complete the trials;
- our inability and the inability of our collaborators to reach agreement on acceptable terms with prospective CROs and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- our inability and the inability of our collaborators to obtain IRB or Ethics Committee approval to conduct a clinical trial at a prospective site;

- changes in governmental regulations or administrative actions that adversely affect our ability and the ability of our collaborators to continue to conduct or to complete clinical trials;
- lack of adequate funding to continue the clinical trial, including the incurrence of unforeseen costs due to enrollment delays, requirements to conduct additional trials and studies and increased expenses associated with the services of our CROs and other third parties;
- our inability and the inability of our collaborators to recruit and enroll patients to participate in clinical trials for reasons including competition from other clinical trial programs for the same or similar indications;
- our inability and the inability of our collaborators to retain patients who have initiated a clinical trial but may be prone to withdraw due to side effects from the therapy, lack of efficacy or personal issues, or who are lost to further follow-up; or
- our inability and the inability of our collaborators to ensure adequate statistical power to detect statistically significant treatment effects, whether through our inability to enroll or retain patients in trials or because the specified number of events designated for a completed trial have not occurred.

In addition, we or our collaborators may experience significant setbacks in advanced clinical trials, even after promising results in earlier trials, including unexpected adverse events that may occur when our product candidates are combined with other therapies. For example, in June 2017, we suspended patient enrollment and treatment in all SGN-CD33A trials and discontinued the phase 3 CASCADE clinical trial of SGN-CD33A in frontline older acute myeloid leukemia, or AML, patients, following a higher rate of deaths in the SGN-CD33A containing arm versus the control arm of this trial, and the IND for SGN-CD33A was subsequently placed on hold by the FDA. As a result of recent portfolio and resource prioritization decisions, we have discontinued our SGN-CD33A program altogether, and as a result, we do not expect to receive any return on our investment in SGN-CD33A.

Negative or inconclusive clinical trial results could adversely affect our ability and the ability of our collaborators to obtain regulatory approvals of our product candidates or to market ADCETRIS and/or expand ADCETRIS into additional indications. In particular, negative or inconclusive results in our ECHELON-2 trial would negatively impact or preclude altogether, our and Takeda's ability to obtain regulatory approvals in the frontline MTCL indication in our respective territories, which would limit our sales of, and the commercial potential of, ADCETRIS. Likewise, negative or inconclusive results in our HER2CLIMB trial would negatively impact or preclude altogether our ability to obtain any regulatory approvals of tucatinib, which could result in our failure to realize the anticipated benefits of our acquisition of Cascadian Therapeutics, Inc., or Cascadian, referred to as the Cascadian Acquisition. In addition, clinical trial results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. For example, although we reported positive top line data in our ECHELON-1 trial, regulatory agencies outside of the U.S., or their advisors, may disagree with Takeda's interpretations of data from the ECHELON-1 trial and may not approve the expansion of ADCETRIS' labeled indications of use based on the results of the ECHELON-1 trial or any other of Takeda's clinical trials. Adverse medical events during a clinical trial, including patient fatalities, could cause a trial to be redone or terminated, require us to cease development of a product candidate or the further development or commercialization of ADCETRIS, result in our failure to expand ADCETRIS into additional indications, adversely affect our ability to market ADCETRIS, and may result in other negative consequences to us, including the inclusion of unfavorable information in our product labeling. Further, some of our clinical trials are overseen by an independent data monitoring committee, or IDMC, and an IDMC may determine to delay or suspend one or more of these trials due to safety or futility findings based on events occurring during a clinical trial. In addition, we may be required to implement additional risk mitigation measures that could require us to suspend our clinical trials if certain safety events occur.

Our current product candidates are in various stages of development, and it is possible that none of our product candidates will ever become commercial products.

Our late-stage product candidates include enfortumab vedotin, tucatinib, and tisotumab vedotin, which are in or expected to enter pivotal trials based on only limited phase 1 clinical data. Our earlier-stage clinical pipeline includes ladiratuzumab vedotin, which is in phase 2 clinical development, and SGN-CD48A, SEA-CD40 and SGN-2FF, which are in phase 1 clinical development. In addition, we have multiple preclinical and research-stage programs that employ our proprietary technologies. All of our product candidates will require significant further development, financial resources and personnel to obtain regulatory approval and develop into commercially viable products, if at all.

If a product candidate fails at any stage of development or we or our collaborators otherwise determine to discontinue development of that product candidate, we will not have the anticipated revenues from that product candidate to fund our operations, and we may not receive any return on our investment in that product candidate. In this regard, if we are unable to successfully

complete the development of, obtain regulatory approvals for and commercialize tucatinib, we will not realize the anticipated benefits of the Cascadian Acquisition. Moreover, we still have only limited data from our early trials of our product candidates. Preclinical studies and any encouraging or positive preliminary and interim data from our clinical trials of our product candidates may not be predictive of the results of ongoing or later clinical trials. Even if we or our collaborators are able to complete our planned clinical trials of our product candidates according to our current development timeline, the encouraging or positive results from clinical trials of our product candidates in earlier stage trials may not be replicated in subsequent clinical trial results. In addition, we are developing product candidates in indications in which competition is intense, and it is possible that a clinical trial we run may meet its safety and efficacy endpoints but we may choose not to advance the development and commercialization of the product candidate due to changes in the competitive environment and the rapid evolution of the standard of care. As a result, we and our collaborators may conduct lengthy and expensive clinical trials of our product candidates only to learn that a product candidate is not an effective treatment or is not superior to existing approved therapies, or has an unacceptable safety profile, which could prevent or significantly delay regulatory approval for such product candidate or could cause us to discontinue the development of such product candidate. Also, later-stage clinical trials could differ in significant ways from earlier stage clinical trials, which could cause the outcome of the later-stage trials to differ from earlier stage clinical trials. For example, we are conducting the EV-201 trial of enfortumab vedotin with Astellas, the HER2CLIMB trial of tucatinib and we are also planning to conduct a pivotal phase 2 trial of tisotumab vedotin with Genmab in patients with recurrent and/or metastatic cervical cancer, in each case based on only limited phase 1 clinical data. Enfortumab vedotin, tucatinib and tisotumab vedotin have not previously been evaluated in later stage clinical trials and we cannot be certain that the design of, or data collected from, these trials will be adequate to demonstrate the safety and efficacy of any of these product candidates, or will otherwise be sufficient to support FDA or any foreign regulatory approvals. Differences in earlier and later stage clinical trials may include changes to inclusion and exclusion criteria, efficacy endpoints and statistical design. Many companies in the pharmaceutical and biotechnology industries, including us, have suffered significant setbacks in late-stage clinical trials after achieving encouraging or positive results in early-stage development. We cannot be certain that we will not face similar setbacks in our ongoing or planned clinical trials, including in the ongoing and planned pivotal phase 2 trials for enfortumab vedotin, tucatinib and tisotumab vedotin. We have not yet completed any late-stage clinical trials for our current product candidates, and if we or our collaborators fail to produce positive results in our ongoing or planned clinical trials of any of our product candidates, the development timeline and regulatory approval and commercialization prospects for our product candidates, and, correspondingly, our business and financial prospects, would be materially adversely affected.

Due to the uncertain and time-consuming clinical development and regulatory approval process, we may not successfully develop any of our product candidates, or we may choose to discontinue the development of product candidates for a variety of reasons such as due to safety, risk versus benefit profile, exclusivity, competitive landscape, or prioritization of our resources. It is possible that none of our current product candidates will ever become commercial products. In addition, we have to make decisions about which clinical stage and pre-clinical product candidates to develop and advance, and we may not have the resources to invest in certain product candidates, or clinical data and other development considerations may not support the advancement of one or more product candidates. For example, as a result of recent portfolio and resource prioritization decisions, we are no longer planning to develop denintuzumab mafodotin, SGN-CD19B, SGN-CD123A, SGN-CD33A, and SGN-CD352A. Decision-making about which product candidates to prioritize involves inherent uncertainty, and our development program decision-making and resource prioritization decisions may not improve our results of operations or prospects or enhance the value of our common stock. Our failure to effectively advance our development programs, including our tucatinib development program, could have a material adverse effect on our business and prospects, and cause the price of our common stock to decline.

We do not have sole control of the development and commercialization of enfortumab vedotin and tisotumab vedotin, and we have limited data on the safety and efficacy of these drug candidates.

We and our collaborators, Astellas and Genmab respectively, have elected to pursue accelerated development and approval pathways for enfortumab vedotin and tisotumab vedotin. We have initiated a pivotal clinical trial for enfortumab vedotin and intend to initiate a pivotal clinical trial for tisotumab vedotin, in each case based on only limited phase 1 clinical data. There may be important facts about the safety, efficacy, and risk versus benefit of these product candidates that are not known to us at this time which may negatively impact our ability to develop and commercialize these product candidates. In response to safety events observed in our ongoing clinical trials of enfortumab vedotin and tisotumab vedotin, including patient deaths, we have in the past, and may in the future, institute additional precautionary safety measures such as dosing caps and delays, enhanced monitoring for side effects, and modified patient inclusion and exclusion criteria. In addition, enfortumab vedotin and tisotumab vedotin may fail to demonstrate sufficient efficacy in our pivotal trials despite the results observed in previous trials. Additional and/or unexpected safety events or our failure to generate additional efficacy data in our clinical trials that support registration could significantly impact the value of enfortumab vedotin and tisotumab vedotin to our business. Moreover, because control of development and commercialization is shared with our collaborators, we do not have sole discretion and control over the development and commercialization of these product candidates.

We depend on collaborative relationships with other companies to assist in the research and development of ADCETRIS and for the development and commercialization of product candidates utilizing or incorporating our technologies. If we are not able to locate suitable collaborators or if our collaborators do not perform as expected, this may negatively affect our ability to commercialize ADCETRIS, develop other product candidates and/or generate revenues through technology licensing, or may otherwise negatively affect our business.

We have established collaborations with third parties to develop and market ADCETRIS and some of our current and future product candidates. For example, we entered into a collaboration agreement with Takeda in December 2009 that granted Takeda rights to develop and commercialize ADCETRIS outside of the United States and Canada. In addition, we have entered into 50:50 co-development collaborations with Astellas for the development of enfortumab vedotin, and with Genmab for the development of tisotumab vedotin. We are also collaborating with Bristol-Myers Squibb Co., or BMS, with respect to the CHECKMATE 812 pivotal phase 3 clinical trial evaluating the combination of Opdivo (nivolumab) with ADCETRIS for the treatment of relapsed or refractory, or transplant-ineligible, advanced classical Hodgkin lymphoma. In addition, we have antibody-drug conjugate, or ADC, collaborations with AbbVie, Bayer, Celldex, Genentech, GSK, Pfizer and Progenics, and we have entered into a collaboration agreement with Unum Therapeutics, Inc., or Unum, to develop and commercialize novel antibody-coupled T-cell receptor, or ACTR, therapies incorporating our antibodies for the treatment of cancer and with Pieris Pharmaceuticals, Inc. and Pieris Pharmaceuticals AG, or together, Pieris to develop targeted bispecific immuno-oncology therapies for the treatment of cancer. Our dependence on collaborative arrangements to assist in the development and commercialization of ADCETRIS and for the development and commercialization of product candidates utilizing or incorporating our technologies subjects us to a number of risks, including:

- we are not able to control the amount and timing of resources that our collaborators devote to the development or commercialization of products and product candidates utilizing or incorporating our technologies, or to their marketing and distribution;
- disputes may arise between us and our collaborators that result in the delay or termination of the research, development or commercialization of the applicable products and product candidates or that result in costly litigation or arbitration that diverts management's attention and resources;
- with respect to collaborations under which we have an active role, such as our ADCETRIS collaboration and our 50:50 co-development agreements with Astellas and Genmab, we may have differing opinions or priorities than our collaborators, or we may encounter challenges in joint decision making, which may result in the delay or termination of the research, development or commercialization of the applicable products and product candidates, including ADCETRIS, enfortumab vedotin and tisotumab vedotin;
- our current and potential future collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- significant delays in the development of product candidates by current and potential collaborators could allow competitors to bring products to market before product candidates utilizing or incorporating our technologies are approved and impair the ability of current and potential future collaborators to effectively commercialize these product candidates;
- our relationships with our collaborators may divert significant time and effort of our scientific staff and management team and require the effective allocation of our resources to multiple internal collaborative projects;
- our current and potential future collaborators may not be successful in their efforts to obtain regulatory approvals in a timely manner, or at all;
- our current and potential future collaborators may receive regulatory sanctions relating to other aspects of their business that could adversely affect the development, approval or commercialization of the applicable products or product candidates;
- our current and potential future collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our proprietary information or expose us to potential litigation;
- business combinations or significant changes in a collaborator's business strategy may adversely affect such party's willingness or ability to complete its obligations under any arrangement;

- a collaborator could independently move forward with competing products, therapeutic approaches or technologies to develop treatments for the diseases targeted by us or our collaborators that are developed by such collaborator either independently or in collaboration with others, including our competitors;
- our current and potential collaborators may experience financial difficulties; and
- our collaborations may be terminated, breached or allowed to expire, or our collaborators may reduce the scope of our agreements with them, which could have a material adverse effect on our financial position by reducing or eliminating the potential for us to receive technology access and license fees, milestones and royalties, and/or reimbursement of development costs, and which could require us to devote additional efforts and to incur the additional costs associated with pursuing internal development and commercialization of the applicable products and product candidates.

If our collaborative arrangements are not successful as a result of any of the above factors, or any other factors, then our ability to advance the development and commercialization of the applicable products and product candidates and to otherwise generate revenue from these arrangements and to become profitable will be adversely affected, and our business and business prospects may be materially harmed. In particular, if Takeda were to terminate the ADCETRIS collaboration, which it may do for any reason upon prior written notice to us, we would not receive milestone payments, co-funded development payments or royalties for the sale of ADCETRIS outside the United States and Canada. As a result of such termination, we may have to engage another collaborator to complete the ADCETRIS development process and to commercialize ADCETRIS outside the United States and Canada, or to complete the development process and undertake commercializing ADCETRIS outside the United States and Canada ourselves, either of which could significantly delay the continued development and commercialization of ADCETRIS and increase our costs. Similarly, both Astellas and Genmab have the right to opt-out of their co-development obligations relating to enfortumab vedotin and tisotumab vedotin, respectively. If either Astellas or Genmab were to opt-out of their co-development collaborations with us, this would significantly delay the development of the impacted product candidate and increase our costs. Any of these events could significantly harm our financial position, adversely affect our stock price and require us to incur all the costs of developing and commercializing ADCETRIS, enfortumab vedotin or tisotumab vedotin, which are now being co-funded by our collaboration partners. In the future, we may not be able to locate third-party collaborators to develop and market products and product candidates utilizing or incorporating our technologies, and we may lack the capital and resources necessary to develop and market these products and product candidates alone.

We face intense competition and rapid technological change, which may result in others discovering, developing or commercializing competing products before or more successfully than we do.

The biotechnology and biopharmaceutical industries are characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary products. Many third parties compete with us in developing various approaches to treating cancer. They include pharmaceutical companies, biotechnology companies, academic institutions and other research organizations.

Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approval and marketing than we do. In addition, many of these competitors are active in seeking patent protection and licensing arrangements in anticipation of collecting royalties for use of technology that they have developed. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, as well as in acquiring technologies complementary to our programs.

With respect to ADCETRIS, there are several other FDA-approved drugs for its approved indications. BMS's nivolumab (Opdivo) and Merck's pembrolizumab (Keytruda) are approved for the treatment of certain patients with relapsed or refractory classical Hodgkin lymphoma, and Celgene's romidepsin (Istodax) and Spectrum Pharmaceuticals' pralatrexate (Folotyn) and belinostat (Beleodaq) are approved for relapsed or refractory sALCL among other T-cell lymphomas. The competition ADCETRIS faces from these and other therapies is intensifying. Additionally, Merck is conducting a phase 3 clinical trial in relapsed or refractory classical Hodgkin lymphoma comparing pembrolizumab (Keytruda) with ADCETRIS. If this clinical trial demonstrates that pembrolizumab is more effective than ADCETRIS in that treatment setting, our sales of ADCETRIS would be negatively impacted. We are also aware of multiple investigational agents that are currently being studied, including Roche's atezolizumab, Pfizer's avelumab, and Kyowa's mogamulizumab, which, if successful, may compete with ADCETRIS in the future. Data have also been presented on several developing technologies, including bispecific antibodies and CAR modified T-cell therapies that may compete with ADCETRIS in the future. Further, there are many competing approaches used in the treatment of patients in ADCETRIS' four approved indications, including autologous hematopoietic stem cell transplant, allogeneic stem cell transplant, combination chemotherapy, clinical trials with experimental agents and single-agent regimens.

With respect to enfortumab vedotin, treatment in second line metastatic urothelial cancer is limited to CPI monotherapy or generic chemotherapy. There are other investigational agents that, if approved, could be competitive with enfortumab vedotin, including Immunomedics' sacituzumab govitecan, Lilly's ramucirumab, and Janssen's erdafitinib.

With respect to tucatinib, there are multiple marketed products which target HER2, including the antibodies trastuzumab (Herceptin) and pertuzumab (Perjeta) and the antibody drug conjugate ado-trastuzumab emtansine or T-DM1 (Kadcyla). In addition, lapatinib (Tykerb) is a dual EGFR/HER2 oral kinase inhibitor for the treatment of metastatic breast cancer and neratinib (Nerlynx) is an EGFR/HER2/HER4 inhibitor indicated for extended adjuvant use that is also being studied for use in metastatic breast cancer. Margetuximab is a HER2 targeted, Fc-optimized antibody which is in late-stage clinical development.

With respect to tisotumab vedotin, we are aware of other companies that currently have products in development for the treatment of late-stage cervical cancer which could be competitive with tisotumab vedotin, including Agenus, Astrazeneca, BMS, Immunomedics, Innovent Biologics, Merck, and Roche. In addition, several CPIs that are FDA-approved in other treatment settings are being developed for the treatment of late-stage cervical cancer in ongoing phase 2 clinical trials.

Many other pharmaceutical and biotechnology companies are developing and/or marketing therapies for the same types of cancer that our product candidates are designed and being developed to treat. For example, we believe that companies including AbbVie, ADC Therapeutics, Affimed, Agios, Amgen, Astellas, Bayer, Biogen, BMS, Celgene, Eisai, Genentech, GSK, Gilead, ImmunoGen, Immunomedics, Infinity, Karyopharm, MedImmune, MEI Pharma, Merck, Novartis, Pfizer, Sanofi-Aventis, Spectrum Pharmaceuticals, Takeda, Teva, and Xencor are developing and/or marketing products or technologies that may compete with ours. In addition, our ADC collaborators may develop compounds utilizing our technology that may compete with product candidates that we are developing.

We are aware of other companies that have technologies that may be competitive with ours, including Astellas, AstraZeneca, BMS, ImmunoGen, Immunomedics, MedImmune, Mersana and Pfizer, all of which have ADC technology. ImmunoGen has several ADCs in development that may compete with our product candidates. ImmunoGen has also established partnerships with other pharmaceutical and biotechnology companies to allow those other companies to utilize ImmunoGen's technology, including Sanofi-Aventis, Genentech, Novartis, Takeda and Lilly. We are also aware of a number of companies developing monoclonal antibodies directed at the same antigen targets or for the treatment of the same diseases as our product candidates.

In addition, in the United States, the Biologics Price Competition and Innovation Act of 2009 created an abbreviated approval pathway for biological products that are demonstrated to be "highly similar" or "biosimilar" to or "interchangeable" with an FDA-approved biological product. This pathway allows competitors to reference the FDA's prior approvals regarding innovative biological products and data submitted with a BLA to obtain approval of a biosimilar application 12 years after the time of approval of the innovative biological product. The 12-year exclusivity period runs from the initial approval of the innovator product and not from approval of a new indication. In addition, the 12-year exclusivity period does not prevent another company from independently developing a product that is highly similar to the innovative product, generating all the data necessary for a full BLA and seeking approval. Exclusivity only assures that another company cannot rely on the FDA's prior approvals in approving a BLA for an innovator's biological product to support the biosimilar product's approval. Further, under the FDA's current interpretation, it is possible that a biosimilar applicant could obtain approval for one or more of the indications approved for the innovator product by extrapolating clinical data from one indication to support approval for other indications. The FDA approved the first biosimilar product in the United States in May 2015. In the European Union, the European Commission has granted marketing authorizations for several biosimilars pursuant to a set of general and product class-specific guidelines for biosimilar approvals issued since 2005. We are aware of many pharmaceutical and biotechnology and other companies that are actively engaged in research and development of biosimilars or interchangeable products.

It is possible that our competitors will succeed in developing technologies that are more effective than ADCETRIS, enfortumab vedotin, tucatinib, tisotumab vedotin or our other product candidates or that would render our technology obsolete or noncompetitive, or will succeed in developing biosimilar, interchangeable or generic products for ADCETRIS, enfortumab vedotin, tucatinib, tisotumab vedotin or our other product candidates. We anticipate that we will continue to face increasing competition in the future as new companies enter our market and scientific developments surrounding biosimilars and other cancer therapies continue to accelerate. We cannot predict to what extent the entry of biosimilars or other competing products will impact potential future sales of ADCETRIS, enfortumab vedotin, tucatinib, tisotumab vedotin or our other product candidates.

Our operating results are difficult to predict and may fluctuate. If our operating results are below the expectations of securities analysts or investors, the trading price of our stock could decline.

Our operating results are difficult to predict and may fluctuate significantly from quarter to quarter and year to year, including due to our receipt of marketing approvals for ADCETRIS in two additional indications since November 2017. As a result, although we provide sales guidance for ADCETRIS from time to time, you should not rely on ADCETRIS sales results in any period as being indicative of future performance. In addition, such guidance is based on assumptions that may be incorrect or that may change from quarter to quarter, and it may be particularly difficult to correctly forecast sales in indications for which we have recently received marketing approval. Moreover, sales of ADCETRIS have, on occasion, been below the expectations of securities analysts and investors and have been below prior period sales, and sales of ADCETRIS in the future may also be below prior period sales, our own guidance and/or the expectations of securities analysts and investors. To the extent that we do not meet our guidance or the expectations of analysts or investors, our stock price may be adversely impacted, perhaps significantly. We believe that our quarterly and annual results of operations may be affected by a variety of factors, including:

- customer ordering patterns for ADCETRIS, which may vary significantly from period to period;
- the overall level of demand for ADCETRIS, including the impact of any competitive or biosimilar products and the duration of therapy for patients receiving ADCETRIS;
- the extent to which coverage and reimbursement for ADCETRIS is available from government and health administration authorities, private health insurers, managed care programs and other third-party payors;
- our ability to establish or demonstrate in the medical community the safety, efficacy or value of ADCETRIS and its potential advantages compared to existing and future therapies in the Stage III or IV Hodgkin lymphoma setting and other settings;
- changes in the amount of deductions from gross sales, including government-mandated rebates, chargebacks and discounts that can vary because of changes to the government discount percentage, including increases in the government discount percentage resulting from price increases we have taken or may take in the future, or due to different levels of utilization by entities entitled to government rebates and discounts and changes in patient demographics;
- increases in the scope of eligibility for customers to purchase ADCETRIS at the discounted government price or to obtain government-mandated rebates on purchases of ADCETRIS;
- changes in our cost of sales;
- the incidence rate of new patients in ADCETRIS' approved indications;
- the timing, cost and level of investment in our sales and marketing efforts to support ADCETRIS sales;
- the timing, cost and level of investment in our research and development and other activities involving ADCETRIS, enfortumab vedotin, tucatinib, tisotumab vedotin and our other product candidates by us or our collaborators;
- changes in the prices of the Immunomedics and Unum common stock that affect the valuation of the common stock of those companies that we hold; and
- expenditures we will or may incur to develop and/or commercialize any additional products, product candidates, or technologies that we may develop, in-license, or acquire.

In addition, we have entered into licensing and collaboration agreements with other companies that include development funding and milestone payments to us, and we expect that amounts earned from our collaboration agreements will continue to be an important source of our revenues. Accordingly, our revenues will also depend on development funding and the achievement of development and clinical milestones under our existing collaboration and license agreements, including, in particular, our ADCETRIS collaboration with Takeda, as well as entering into potential new collaboration and license agreements. These upfront and milestone payments may vary significantly from quarter to quarter and any such variance could cause a significant fluctuation in our operating results from one quarter to the next.

Further, changes in our operations, such as increased development, manufacturing and clinical trial expenses in connection with our expanding pipeline programs, or our undertaking of additional programs, business activities, and the integration and development activities related to Cascadian and Cascadian's product candidates, or entry into strategic transactions, including potential future acquisitions of products, technologies or businesses may also cause significant fluctuations in our expenses. In addition, we measure compensation cost for stock-based awards made to employees at the grant date of the award, based on the fair

value of the award, and recognize the cost as an expense over the employee's requisite service period. As the variables that we use as a basis for valuing these awards change over time, including our underlying stock price, the magnitude of the expense that we must recognize may vary significantly. Additionally, we have implemented long-term incentive plans for our employees, and the incentives provided under these plans are contingent upon the achievement of certain regulatory milestones. Costs of performance-based compensation under our long-term incentive plans are not recorded as an expense until the achievement of the applicable milestones is deemed probable of being met, which may result in large fluctuations to the expense we must recognize in any particular period.

Additionally, as of March 31, 2018, we held 11.7 million shares of Immunomedics common stock and 0.8 million shares of Unum common stock. Beginning on January 1, 2018, we adopted ASU 2016-01 "Financial Instruments: Overall," and as a result, we record changes in the fair value of our equity securities, including the Immunomedics and Unum common stock that we hold, in net income or loss, which is expected to increase the volatility of net income or loss to the extent that we continue to hold common stock or other equity securities.

For these and other reasons, it is difficult for us to accurately forecast future sales of ADCETRIS, collaboration and license agreement revenues, royalty revenues, operating expenses or future profits or losses. As a result, our operating results in future periods could be below our guidance or the expectations of securities analysts or investors, which could cause the trading price of our common stock to decline, perhaps substantially.

We have a history of net losses. We expect to continue to incur net losses and may not achieve future profitability for some time, if at all.

We have incurred substantial net losses in each of our years of operation. We have incurred these losses principally from costs incurred in our research and development programs and from our selling, general and administrative expenses. We expect to continue to spend substantial amounts on research and development, including amounts for conducting clinical trials of ADCETRIS as well as commercializing ADCETRIS for the treatment of patients in its five approved indications. In addition, we expect to make substantial expenditures to further develop and potentially commercialize enfortumab vedotin, tucatinib, tisotumab vedotin and our other product candidates. Likewise, in connection with the Cascadian Acquisition and the integration of Cascadian's business, we have incurred and expect to incur substantial expenses, including to further develop and potentially commercialize tucatinib. Accordingly, we expect to continue to incur net losses and may not achieve profitability in the future for some time, if at all. Although we recognize revenue from ADCETRIS product sales and we continue to earn amounts under our collaboration agreements, our revenue and profit potential is unproven and our limited commercialization history makes our future operating results difficult to predict. Even if we do achieve profitability in the future, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we are unable to achieve and sustain profitability, the market value of our common stock will likely decline.

We have engaged in, and may in the future engage in strategic transactions that increase our capital requirements, dilute our stockholders, cause us to incur debt or assume contingent liabilities and subject us to other risks.

We actively evaluate various strategic transactions on an ongoing basis, including licensing or otherwise acquiring complementary products, technologies or businesses. For example, in March 2018, we made significant investment in tucatinib through the Cascadian Acquisition. The Cascadian Acquisition and any potential future acquisitions or in-licensing transactions entail numerous risks, including but not limited to:

- risks associated with satisfying the closing conditions relating to such transactions and realizing their anticipated benefits;
- increased operating expenses and cash requirements;
- difficulty integrating acquired technologies, products, operations, and personnel with our existing business;
- the potential disruption of our historical core business;
- diversion of management's attention in connection with both negotiating the acquisition or license and integrating the business, technology or product;
- retention of key employees;
- difficulties in assimilating employees and corporate cultures of any acquired companies;

- uncertainties in our ability to maintain key business relationships of any acquired companies;
- strain on managerial and operational resources;
- difficulty implementing and maintaining effective internal control over financial reporting at businesses that we acquire, particularly if they are not located near our existing operations;
- exposure to unanticipated liabilities of acquired companies or companies in which we invest;
- the potential need to write down assets or recognize impairment charges; and
- potential costly and time-consuming litigation, including stockholder lawsuits.

As a result of these or other problems and risks, businesses, technologies or products we acquire or invest in or obtain licenses to may not produce the revenues, earnings or business synergies that we anticipated, acquired or licensed product candidates or technologies, including tucatinib, may not result in regulatory approvals, and acquired or licensed products may not perform as expected. As a result, we may incur higher costs and realize lower revenues than we had anticipated. We cannot assure you that any acquisitions or investments we have made or may make in the future will be completed or that, if completed, the acquired business, licenses, investments, products, or technologies will generate sufficient revenue to offset the negative costs or other negative effects on our business. Failure to manage effectively our growth through acquisition or in-licensing transactions such as the Cascadian Acquisition could adversely affect our growth prospects, business, results of operations, financial condition, and cash flow.

In addition, we may spend significant amounts, issue dilutive securities, assume or incur significant debt obligations, incur large one-time expenses and acquire intangible assets or goodwill in connection with acquisitions and in-licensing transactions that could result in significant future amortization expense and write-offs. Moreover, we may not be able to locate suitable acquisition opportunities and this inability could impair our ability to grow or obtain access to technology or products that may be important to the development of our business. Other pharmaceutical companies, many of which may have substantially greater financial, marketing and sales resources, compete with us for these opportunities. Even if appropriate opportunities are available, we may not be able to successfully identify them or we may not have the financial resources necessary to pursue them, and if pursued, we may be unable to structure and execute transactions in the anticipated timeframe, or at all.

Even if we are able to successfully identify and acquire complementary products, technologies or businesses, we cannot assure you that we will be able to successfully manage the risks associated with integrating acquired products, technologies or businesses or the risks arising from anticipated and unanticipated problems in connection with an acquisition or in-licensing transaction. For example, as a result of the Cascadian Acquisition, we now operate our historical core business along with the Cascadian business as one combined organization utilizing common information and communication systems, operating procedures, financial controls and human resources practices. There may be substantial difficulties, costs and delays involved in the integration of our historical core business with the Cascadian business, including as a result of challenges relating to the diversion of management's attention, the possibility of faulty assumptions underlying expectations regarding the integration process, retaining and attracting business and operational relationships, eliminating duplicative operations and inconsistent standards and procedures and increased or unforeseen liabilities or costs relating to the Cascadian Acquisition or the Cascadian business. We have also incurred substantial expenses in connection with and as a result of completing the Cascadian Acquisition and, over a period of time following the completion of the Cascadian Acquisition, we expect to incur substantial additional expenses in connection with coordinating the businesses, operations, policies and procedures of the combined company. Further, while we seek to mitigate risks and liabilities of potential acquisitions and in-licensing transactions through, among other things, due diligence, there may be risks and liabilities that such due diligence efforts fail to discover, that are not disclosed to us, or that we inadequately assess. Any failure in identifying and managing these risks, liabilities and uncertainties effectively, including in connection with the Cascadian Acquisition, could have a material adverse effect on our business and adversely affect our results of operations and financial condition. Additionally, we may not realize the anticipated benefits of such transactions, including the possibility that expected synergies and accretion will not be realized or will not be realized within the expected time frame.

To date, we have depended on a small number of collaborators for a substantial portion of our revenue. The loss of any one of these collaborators or changes in their product development or business strategy could result in a material decline in our revenue.

We have collaborations with a limited number of companies. To date, a substantial portion of our revenue has resulted from payments made under agreements with our corporate collaborators, and although ADCETRIS sales currently comprise a greater proportion of our revenue, we expect that a portion of our revenue will continue to come from corporate collaborations. Even though we market ADCETRIS in the United States and Canada, our revenues still depend in part on Takeda's ability and willingness to

market ADCETRIS outside of the United States and Canada. The loss of our collaborators, especially Takeda, changes in product development or business strategies of our collaborators, or the failure of our collaborators to perform their obligations under their agreements with us for any reason, including paying license or technology fees, milestone payments, royalties or reimbursements, could have a material adverse effect on our financial performance. Payments under our existing and potential future collaboration agreements are also subject to significant fluctuations in both timing and amount, which could cause our revenue to fall below the expectations of securities analysts and investors and cause a decrease in our stock price.

We are dependent upon a small number of distributors for a significant portion of our net sales, and the loss of, or significant reduction or cancellation in sales to, any one of these distributors could adversely affect our operations and financial condition.

In the United States and Canada, we sell ADCETRIS through a limited number of pharmaceutical distributors. Customers order ADCETRIS through these distributors. We generally receive orders from distributors and ship product directly to the customer. We do not promote ADCETRIS to these distributors and they do not set or determine demand for ADCETRIS; however, our ability to effectively commercialize ADCETRIS will depend, in part, on the performance of these distributors. Although we believe we can find alternative distributors on relatively short notice, the loss of a major distributor could materially and adversely affect our results of operations and financial condition.

We currently rely on third-party manufacturers and other third parties for production of our drug products and our dependence on these manufacturers may impair the continued development and commercialization of ADCETRIS and our product candidates.

Although we own a biologics manufacturing facility located in Bothell, Washington, we rely and expect to continue to rely on corporate collaborators and contract manufacturing organizations to supply drug product or intermediates for commercial supply and our IND-enabling studies and clinical trials.

For the monoclonal antibody used in ADCETRIS, we have contracted with AbbVie for clinical and commercial supplies. For the drug linker used in ADCETRIS, we have contracted with Sigma Aldrich Fine Chemicals, or SAFC, for clinical and commercial supplies. We have multiple contract manufacturers for conjugating the drug linker to the antibody and producing the ADCETRIS product. For the foreseeable future, we expect to continue to rely on contract manufacturers and other third parties to produce, vial and store sufficient quantities of ADCETRIS for use in our clinical trials and for commercial sale. If our contract manufacturers or other third parties fail to deliver ADCETRIS for clinical use or sale on a timely basis, with sufficient quality, and at commercially reasonable prices, and we fail to find replacement manufacturers or to develop our own manufacturing capabilities, we may be required to delay or suspend clinical trials or otherwise discontinue development, production and sale of ADCETRIS. Moreover, contract manufacturers have a limited number of facilities in which ADCETRIS can be produced and any interruption of the operation of those facilities due to events such as equipment malfunction or failure or damage to the facility by natural disasters or as the result of regulatory actions could result in the cancellation of shipments, loss of product in the manufacturing process, a shortfall in ADCETRIS supply, or the inability to sell our products in the U.S. or abroad. In addition, we have committed to provide Takeda with their needs of certain parts of the ADCETRIS supply chain for a limited period of time, which may require us to arrange for additional manufacturing supply. Moreover, we depend on outside vendors for the supply of raw materials used to produce ADCETRIS. If the third-party suppliers were to cease production or otherwise fail to supply us with quality raw materials and we were unable to contract on acceptable terms for these raw materials with alternative suppliers, our ability to have ADCETRIS manufactured to meet commercial and clinical requirements would be adversely affected.

For the clinical supply of our product candidates, which include ADCs as well as antibodies and small molecules, we rely on multiple contract manufacturers and other third parties to perform manufacturing services for us. With respect to enfortumab vedotin and tisotumab vedotin specifically, we rely on manufacturing services provided by our collaborators and have little control over their supply chains or the contract manufacturers they utilize. For the foreseeable future, we expect to continue to rely on contract manufacturers and, in the case of enfortumab vedotin and tisotumab vedotin, on our collaborators, for manufacturing of clinical supplies, and for potential future commercial manufacturing. If our third-party manufacturers cease or interrupt production, if our third-party manufacturers and other service providers fail to supply satisfactory materials, products or services for any reason or experience performance delays or quality concerns, if materials or products are lost in transit or in the manufacturing process, or if we encounter challenges in assuming responsibility for new processes such as the manufacture of tucatinib, such challenges or interruptions could substantially delay progress on our programs or impact clinical trial drug supply, with the potential for additional costs and an adverse effect on our business.

We are planning to use our own manufacturing facility to support our growing pipeline. As an organization, we have no prior experience operating a manufacturing facility.

In October 2017, we acquired a biologics manufacturing facility located in Bothell, Washington, which facility we intend to use to support our clinical supply needs. Under the terms of this acquisition, we are required to operate the facility and produce certain clinical drug product components for BMS under a transitional services agreement for a period of time. As an organization, we have no prior experience manufacturing for ourselves or other parties, and operating this facility requires us to comply with complex regulations and to continue to hire and retain experienced scientific, quality control, quality assurance and manufacturing personnel. We could encounter challenges in operating the manufacturing facility in compliance with cGMP, regulatory or other applicable requirements, resulting in potential negative consequences, including regulatory actions, which could undermine our ability to utilize this facility for our own manufacturing needs and/or result in a breach of our contractual manufacturing obligations to BMS. Any of these risks, if actualized, could materially and adversely affect our business and financial position. In addition, despite the acquisition of this facility, we nonetheless expect to continue to rely on corporate collaborators and contract manufacturing organizations to supply drug product and intermediates for commercial supply and our IND-enabling studies and clinical trials. Our continuing dependence on these manufacturers may impair the continued development and commercialization of ADCETRIS and our product candidates.

We are subject to various state and federal and foreign laws and regulations, including healthcare, privacy and data security laws and regulations, that may impact our business and could subject us to significant fines and penalties or other negative consequences.

Our operations may be directly or indirectly subject to various state and federal healthcare laws, including, without limitation, the federal Anti-Kickback Statute, federal civil and criminal false claims laws, the federal Health Insurance Portability and Accountability Act, or HIPAA, the federal Health Information Technology for Economic and Clinical Health Act, or HITECH, the federal civil monetary penalties statute, and the federal transparency requirements under the PPACA. These laws may impact, among other things, the sales, marketing and education programs for ADCETRIS.

The federal Anti-Kickback Statute prohibits persons and entities from knowingly and willingly soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. Additionally, PPACA amended the intent requirement of the federal Anti-Kickback Statute such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it to have committed a violation. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Penalties for violations of the federal Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs.

The federal civil and criminal false claims laws, including the civil False Claims Act, prohibit, among other things, persons or entities from knowingly presenting, or causing to be presented, a false claim to, or the knowing use of false statements to obtain payment from or approval by the federal government, including the Medicare and Medicaid programs, or knowingly making, using, or causing to be made or used a false record or statement material to a false or fraudulent claim or to avoid, decrease, or conceal an obligation to pay money to the federal government. PPACA provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act. Suits filed under the civil False Claims Act, known as "qui tam" actions, can be brought by any individual on behalf of the government and such individuals, commonly known as "whistleblowers," may share in any amounts paid by the entity to the government in fines or settlement. Many pharmaceutical and other healthcare companies have recently been investigated or subject to lawsuits by whistleblowers and have reached substantial financial settlements with the federal government under the civil False Claims Act for a variety of alleged improper marketing or other activities, including providing free product to customers with the expectation that the customers would bill federal programs for the product; providing consulting fees, grants, free travel, and other benefits to physicians to induce them to prescribe the company's products; and inflating prices reported to private price publication services, which are used to set drug reimbursement rates under government healthcare programs.

The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, created additional federal criminal statutes that prohibit, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, knowingly and willfully embezzling or stealing from a healthcare benefit program, willfully obstructing a criminal investigation of a healthcare offense, and knowingly and willfully falsifying, concealing, or covering up a material fact or making any materially false, fictitious, or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items, or

services. Similar to the Anti-Kickback Statute, PPACA amended the intent requirement of the criminal healthcare fraud statutes such that a person or entity no longer needs to have actual knowledge of the statute or intent to violate it to have committed a violation.

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH, and its implementing regulations, governs certain types of individuals and entities with respect to the conduct of certain electronic healthcare transactions and imposes certain obligations with respect to the security and privacy of protected health information.

The federal civil monetary penalties statute imposes penalties against any person or entity that, among other things, is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent.

The federal transparency requirements under PPACA, known as the Physician Payments Sunshine Act, require certain manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program to annually report to the CMS information related to payments and other transfers of value to physicians and teaching hospitals, and physician ownership and investment interests.

There are foreign and state law versions of these laws and regulations, such as anti-kickback, false claims, and data privacy and security laws, to which we are currently and/or may in the future, be subject. For example, European Union, or EU, member states and other foreign jurisdictions, including Switzerland, have adopted data protection laws and regulations which impose significant compliance obligations. Moreover, the collection and use of personal health data in the EU, presently governed by the provisions of the EU Data Protection Directive, will be replaced with the EU General Data Protection Regulation, or the GDPR, in May 2018. The GDPR, which is wide-ranging in scope, will impose several requirements relating to the consent of the individuals to whom the personal data relates, the information provided to the individuals, the security and confidentiality of the personal data, data breach notification and the use of third party processors in connection with the processing of personal data. The GDPR will also impose strict rules on the transfer of personal data out of the EU to the U.S., will provide an enforcement authority and will impose large penalties for noncompliance, including the potential for fines of up to €20 million or 4% of the annual global revenues of the noncompliant company, whichever is greater. The GDPR requirements apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information. The GDPR will increase our responsibility and liability in relation to personal data that we process, including in clinical trials, and we may be required to put in place additional mechanisms to ensure compliance with the GDPR, which could divert management's attention and increase our cost of doing business. In addition, new regulation or legislative actions regarding data privacy and security (together with applicable industry standards) may increase our costs of doing business. In this regard, we expect that there will continue to be new proposed laws, regulations and industry standards relating to privacy and data protection in the United States, the EU and other jurisdictions, and we cannot determine the impact such future laws, regulations and standards may have on our business. We may also be subject to state laws that require manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers, marketing expenditures, or other reporting and registration requirements related to our business activities. Many of these state laws differ from each other in significant ways, thus complicating compliance efforts.

The FDA and other governmental authorities also actively investigate allegations of off-label promotion activities in order to enforce regulations prohibiting these types of activities. In recent years, private whistleblowers have also pursued False Claims Act cases against a number of pharmaceutical companies for causing false claims to be submitted as a result of off-label promotion. If we are found to have promoted an approved product, including ADCETRIS, for off-label uses we may be subject to significant liability, including civil and administrative financial penalties and other remedies as well as criminal financial penalties and other sanctions. Even when a company is not determined to have engaged in off-label promotion, the allegation from government authorities or market participants that a company has engaged in such activities could have a significant impact on the company's sales, business and financial condition. The U.S. government has also required companies to enter into complex corporate integrity agreements and/or non-prosecution agreements that impose significant reporting and other burdens on the affected companies.

We are also subject to numerous other laws and regulations that are not specific to the healthcare industry. For instance, the U.S. Foreign Corrupt Practices Act, or FCPA, prohibits companies and individuals from engaging in specified activities to obtain or retain business or to influence a person working in an official capacity. Under the FCPA, it is illegal to pay, offer to pay, or authorize the payment of anything of value to any foreign government official, governmental staff members, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect the transactions of the corporation and to devise and maintain an adequate system of internal accounting controls.

The number and complexity of both U.S. federal and state laws continue to increase. In addition to enforcement by governmental agencies, we also expect a continuation of the trend of private plaintiff lawsuits against pharmaceutical manufacturers under the

whistleblower provisions of the civil False Claims Act and state equivalents or other laws and regulations such as securities rules and the evolution of new theories of liability under those statutes. Government agencies will likely continue to intervene in such private whistleblower lawsuits and such intervention typically raises the company's cost significantly. For example, federal enforcement agencies have recently scrutinized product and patient assistance programs, including manufacturer reimbursement support services as well as relationships with specialty pharmacies. Several investigations have resulted in government enforcement authorities intervening in related whistleblower lawsuits and obtaining significant civil and criminal settlements.

In order to comply with these laws, we have implemented a compliance program to actively identify, prevent and mitigate risk through the implementation of compliance policies and systems and by promoting a culture of compliance. Although we take our obligation to maintain our compliance with these various laws and regulations seriously and our compliance program is designed to prevent the violation of these laws and regulations, we cannot guarantee that our compliance program will be sufficient or effective, that we will be able to integrate the operations of acquired businesses into our compliance program on a timely basis, that our employees will comply with our policies and that our employees will notify us of any violation of our policies, that we will have the ability to take appropriate and timely corrective action in response to any such violation, or that we will make decisions and take actions that will necessarily limit or avoid liability for whistleblower claims that individuals, such as employees or former employees, may bring against us or that governmental authorities may prosecute against us based on information provided by individuals. If we are found to be in violation of any of the laws and regulations described above or other applicable state and federal healthcare laws, we may be subject to penalties, including civil, criminal and administrative penalties, damages, fines, disgorgement, contractual damages, reputational harm, imprisonment, diminished profits and future earnings, exclusion from government healthcare reimbursement programs, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, and/or the curtailment or restructuring of our operations, any of which could have a material adverse effect on our business, results of operations and growth prospects. Any action against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal, state and foreign healthcare laws is costly and time-consuming for our management.

As we expand our operations internationally, we are subject to an increased risk of conducting activities in a manner that violates applicable anti-bribery or anti-corruption laws. We are also subject to foreign laws and regulations covering data privacy and the protection of health-related and other personal information. These laws and regulations could create liability for us or increase our cost of doing business, any of which could have a material adverse effect on our business, results of operations and growth prospects.

We are expanding our operations internationally, and we currently have subsidiaries in Australia, Canada, Ireland, Luxembourg, Switzerland and the United Kingdom. Though we are at an early stage with our international expansion, our business activities outside of the United States are subject to the FCPA, which is described above, and similar anti-bribery or anti-corruption laws, regulations or rules of other countries in which we currently and may in the future operate, including the U.K. Bribery Act. The U.K. Bribery Act prohibits giving, offering, or promising bribes to any person, including non-U.K. government officials and private persons, as well as requesting, agreeing to receive, or accepting bribes from any person. In addition, under the U.K. Bribery Act, companies which carry on a business or part of a business in the U.K. may be held liable for bribes given, offered or promised to any person, including non-U.K. government officials and private persons, by employees and persons associated with such company in order to obtain or retain business or a business advantage for such company. In the course of expanding our operations internationally, we will need to establish and expand business relationships with various third parties, such as independent contractors, distributors, vendors, advocacy groups and physicians, and we will interact more frequently with foreign officials, including regulatory authorities and physicians employed by state-run healthcare institutions who may be deemed to be foreign officials under the FCPA, U.K. Bribery Act or similar laws of other countries that may govern our activities. Any interactions with any such parties or individuals where compensation is provided that are found to be in violation of such laws could result in substantial fines and penalties and could materially harm our business. Furthermore, any finding of a violation under one country's laws may increase the likelihood that we will be prosecuted and be found to have violated another country's laws. If our business practices outside the United States are found to be in violation of the FCPA, U.K. Bribery Act or other similar laws, we may be subject to significant civil and criminal penalties which could have a material adverse effect on our business, results of operations and growth prospects. We are also subject to foreign laws and regulations covering data privacy and the protection of health-related and other personal information. In this regard, EU member states and other foreign jurisdictions, including Switzerland, have adopted data protection laws and regulations which impose significant compliance obligations. Failure to comply with these laws could lead to government enforcement actions and significant penalties against us, which could have a material adverse effect on our business, results of operations and growth prospects. In December 2015, the proposal for the GDPR, intended to replace the current EU Data Protection Directive, was agreed between the European Parliament, the Council of the European Union and the European Commission. The GDPR, which was officially adopted in April 2016 and will be applicable in May 2018, will introduce new data protection requirements in the EU, as well as substantial fines for breaches of the data protection rules. The GDPR will increase our responsibility and liability in relation to personal data that we process, including in clinical trials, and we may be

required to put in place additional mechanisms to ensure compliance with the GDPR, which could divert management's attention and increase our cost of doing business.

Any failures or further setbacks in our ADC development program would negatively affect our business and financial position.

ADCETRIS and our enfortumab vedotin, tisotumab vedotin, and ladiratuzumab vedotin product candidates are all based on our ADC technology, which utilizes proprietary stable linkers and potent cell-killing synthetic agents. Our ADC technology is also the basis of our collaborations with AbbVie, Astellas, Bayer, Celldex, Genentech, GSK, Pfizer, and Progenics, and our collaboration agreements with Takeda, Astellas, and Genmab. Although ADCETRIS has received marketing approval in the United States, Canada, the European Union, Japan and other countries, ADCETRIS is our first and only ADC product that has been approved for commercial sale in any jurisdiction. In addition, certain of our ADC product candidates include additional proprietary technologies that have not yet been proven in late stage clinical development. Any failures or further setbacks in our ADC development program or with respect to our additional proprietary technologies, including adverse effects resulting from the use of this technology in human clinical trials and/or the imposition of additional clinical holds on our trials of any of our other product candidates, could have a detrimental impact on the continued commercialization of ADCETRIS in its current or any potential future approved indications and on our internal product candidate pipeline, as well as our ability to maintain and/or enter into new corporate collaborations regarding our ADC technology, which would negatively affect our business and financial position.

We have been named as a defendant in a purported securities class action lawsuit, a stockholder derivative lawsuit and lawsuits in connection with the Cascadian Acquisition. These, and potential similar or related lawsuits, could result in substantial damages and may divert management's time and attention from our business.

On January 10, 2017, a purported securities class action lawsuit was commenced in the United States District Court for the Western District of Washington, naming as defendants us and certain of our officers. The lawsuit alleges material misrepresentations and omissions in public statements regarding our business, operational and compliance policies, violations by all named defendants of Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Rule 10b-5 thereunder, as well as violations of Section 20(a) of the Exchange Act. The complaint seeks compensatory damages of an undisclosed amount. The plaintiff alleges, among other things, that we made false and/or misleading statements and/or failed to disclose that SGN-CD33A presents a significant risk of fatal hepatotoxicity and that we had therefore overstated the viability of SGN-CD33A as a treatment for AML. We filed a motion to dismiss this complaint on July 28, 2017. On October 18, 2017, the Court granted our motion to dismiss with leave for plaintiff to file a second consolidated amended complaint. Plaintiff filed a second consolidated amended complaint on November 17, 2017 and we filed a motion to dismiss this new complaint on January 5, 2018. The plaintiff filed an opposition to our motion to dismiss on February 16, 2018 and we replied to this opposition on March 9, 2018. It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same matters and also naming us and/or our officers and directors as defendants.

On March 29, 2017, a stockholder derivative lawsuit was filed in Washington Superior Court for the County of Snohomish, or the Snohomish County Superior Court. The complaint names as defendants certain of our current and former executives and members of our board of directors. We are named as a nominal defendant. The complaint generally makes the same allegations as the securities class action described above, claiming that the individual defendants breached their duties to us. The complaint seeks unspecified damages, disgorgement of compensation, corporate governance changes, and attorneys' fees and costs. Because the complaint is derivative in nature, it does not seek monetary damages from us. On June 8, 2017, the Snohomish County Superior Court entered an order staying this derivative action until resolution of the motion to dismiss the securities class action suit above. On October 18, 2017, in light of the granting of our motion to dismiss the first class action complaint, the parties in the derivative action filed a joint status report with the Snohomish County Superior Court stipulating to continue to stay the derivative action pending a ruling on a motion to dismiss the second consolidated amended class action complaint in the securities class action suit above. A similar joint status report was filed with the Snohomish County Superior Court on February 16, 2018 in order to further extend the Snohomish County Superior Court's stay.

Between February 13, 2018 and February 16, 2018, four purported stockholders of Cascadian filed separate putative class action lawsuits and an individual complaint in the United States District Court for the District of Delaware and the United States District Court for the Western District of Washington against Cascadian and former members of its then-separate board of directors and Seattle Genetics. The cases filed in Delaware are *Kim v. Cascadian Therapeutics, Inc., et al.*, and *Palazzo v. Cascadian Therapeutics, Inc., et al.* The cases filed in Washington are *Jaso v. Cascadian Therapeutics, Inc., et al.*, and *Bensimon v. Cascadian Therapeutics, Inc., et al.* Plaintiffs allege violations of Sections 14(d) and 14(e) of the Exchange Act, Rule 14d-9(d) promulgated under Section 14(d) of the Exchange Act, and Section 20(a) of the Exchange Act in connection with the Schedule 14D-9 filed by Cascadian with the SEC on February 8, 2018 in relation to the Cascadian Acquisition. The *Bensimon* complaint also alleges that the Cascadian board breached its fiduciary duties of care, loyalty and good faith by entering into the Cascadian Acquisition and allegedly failing to take steps to maximize Cascadian's value. All four complaints allege that the

Schedule 14D-9 omitted material information, ostensibly rendering the Schedule 14D-9 materially incomplete. The complaints seek, among other things, to enjoin the Cascadian acquisition and/or damages. On March 8, 2018, plaintiffs in the *Kim*, *Palazzo* and *Bensimon* cases, or the KPB Group, filed a motion in U.S. District Court for the District of Delaware seeking the award of reasonable attorneys' fees and expenses as a result of the alleged benefit provided to Cascadian shareholders from the supplemental disclosures Cascadian made following the filing of their purported class actions, or the KPB Group Fee Motion. Defendants' answer to the KPB Group Fee Motion is due on May 11, 2018. On March 26, 2018, while reserving his right to pursue the KPB Group Fee Motion, plaintiff in the *Palazzo* case voluntarily dismissed his complaint pursuant to Federal Rule of Civil Procedure 41(a) on the grounds that Cascadian's supplemental disclosures prior to the closing of the tender offer mooted the claims set forth in his complaint. Similarly, on April 17, 2018, while reserving his right to pursue the KPB Group Fee Motion, plaintiff in the *Kim* case voluntarily dismissed his complaint pursuant to Federal Rule of Civil Procedure 41(a) on the grounds that Cascadian's supplemental disclosures prior to the closing of the tender offer mooted the claims set forth in his complaint.

On March 8, 2018, three purported stockholders of Cascadian filed a Verified Complaint to Compel Inspection of Books and Records under 8 Del. C. §220 in the Delaware Court of Chancery against Cascadian, seeking to inspect books and records in order to determine whether wrongdoing or mismanagement has taken place such that it would be appropriate to file claims for breach of fiduciary duty, and to investigate the independence and disinterestedness of the former Cascadian directors with respect to the Cascadian Acquisition. We filed our answer to this complaint on March 28, 2018.

These lawsuits and any other related lawsuits are subject to inherent uncertainties, and the actual costs to be incurred relating to the lawsuits will depend upon many unknown factors. The outcome of these lawsuits is necessarily uncertain, and we could be forced to expend significant resources in the defense of these lawsuits, and we may not prevail. Monitoring and defending against legal actions is time-consuming for our management and detracts from our ability to fully focus our internal resources on our business activities, which could result in delays of our clinical trials or our development and commercialization efforts. In addition, we may incur substantial legal fees and costs in connection with these lawsuits. We are also generally obligated, to the extent permitted by law, to indemnify our current and former directors and officers, and those of Cascadian, who are named as defendants in these and similar lawsuits. We are not currently able to estimate the possible cost to us from these matters, as these lawsuits are currently at an early stage and we cannot be certain how long it may take to resolve these matters or the possible amount of any damages that we may be required to pay. We have not established any reserves for any potential liability relating to these lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. Decisions adverse to our interests in these lawsuits could result in the payment of substantial damages, or possibly fines, and could have a material adverse effect on our cash flow, results of operations and financial position. In addition, the uncertainty of the currently pending litigations could lead to increased volatility in our stock price.

We may need to raise significant amounts of additional capital that may not be available to us.

We expect to make additional capital outlays and to increase operating expenditures over the next several years as we hire additional employees, support our preclinical development, manufacturing and clinical trial activities for ADCETRIS and our other pipeline programs, and expand internationally, as well as commercialize ADCETRIS and position ADCETRIS for potential additional regulatory approvals. In addition, we anticipate committing substantial capital resources to the integration and development activities related to Cascadian and its product candidates, including tucatinib. Our commitment of resources to the continuing development, regulatory and commercialization activities for ADCETRIS, and the research, continued development and manufacturing of our product candidates will likely require us to raise substantial amounts of additional capital. Further, we actively evaluate various strategic transactions on an ongoing basis, including licensing or otherwise acquiring complementary products, technologies or businesses, and we may require significant additional capital in order to complete or otherwise provide funding for any additional acquisitions. For example, in connection with the Cascadian Acquisition, we sold 13,269,230 shares of our common stock in an underwritten public offering with a portion of the net proceeds used to fund the costs of the Cascadian Acquisition. We may seek additional funding through some or all of the following methods: corporate collaborations, licensing arrangements and public or private debt or equity financings. We do not know whether additional capital will be available when needed, or that, if available, we will obtain financing on terms favorable to us or our stockholders. If we are unable to raise additional funds when we need them, we may be required to delay, reduce the scope of, or eliminate one or more of our development programs, which may adversely affect our business and operations. Our future capital requirements will depend upon a number of factors, including:

- the level of sales and market acceptance of ADCETRIS;
- the time and costs involved in obtaining regulatory approvals of ADCETRIS in additional indications, if any;
- the size, complexity, timing, progress and number of our clinical programs and our collaborations;
- the timing, receipt and amount of milestone-based payments or other revenue from our collaborations or license arrangements, including royalty revenue generated from commercial sales of ADCETRIS by Takeda;

- the cost of establishing and maintaining clinical and commercial supplies of ADCETRIS;
- the costs associated with acquisitions or licenses of additional technologies, products, or companies, including the Cascadian Acquisition, as well as licenses we may need to commercialize our products;
- the terms and timing of any future collaborative, licensing and other arrangements that we may establish;
- expenses associated with the pending and potential additional related purported securities class action or derivative lawsuits, as well as any other potential litigation;
- the potential costs associated with international, state and federal taxes; and
- competing technological and market developments.

In addition, changes in our spending rate may occur that would consume available capital resources sooner, such as increased development, manufacturing and clinical trial expenses in connection with our expanding pipeline programs and the Cascadian Acquisition, or our undertaking of additional programs, business activities or entry into additional strategic transactions, including potential future acquisitions of products, technologies or businesses. To the extent that we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. To the extent that we raise additional funds through collaboration and licensing arrangements, we may be required to relinquish some rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us.

During the past several years, domestic and international financial markets have experienced extreme disruption from time to time, including, among other things, high volatility and significant declines in stock prices and severely diminished liquidity and credit availability for both borrowers and investors. Such adverse capital and credit market conditions could make it more difficult to obtain additional capital on favorable terms, or at all, which could have a material adverse effect on our business and growth prospects.

We rely on license agreements for certain aspects of ADCETRIS, our product candidates and technologies such as our ADC technology. Failure to maintain these license agreements or to secure any required new licenses could prevent us from continuing to develop and commercialize ADCETRIS and our product candidates.

We have entered into agreements with third-party commercial and academic institutions to license technology for use in ADCETRIS, our product candidates and technologies such as our ADC technology. Currently, we have license agreements with BMS, the University of Miami and Array BioPharma, Inc., among others. In addition to royalty provisions, some of these license agreements contain diligence and milestone-based termination provisions, in which case our failure to meet any agreed upon royalty or diligence requirements or milestones may allow the licensor to terminate the agreement. Many of our license agreements grant us exclusive licenses to the underlying technologies. If our licensors terminate our license agreements or if we are unable to maintain the exclusivity of our exclusive license agreements, we may be unable to continue to develop and commercialize ADCETRIS or our product candidates, including tucatinib. Further, we have had in the past, and may in the future have, disputes with our licensors, which may impact our ability to develop and commercialize ADCETRIS or our product candidates or require us to enter into additional licenses. An adverse result in potential future disputes with our licensors may impact our ability to develop and commercialize ADCETRIS and our product candidates, or may require us to enter into additional licenses or to incur additional costs in litigation or settlement. In addition, continued development and commercialization of ADCETRIS and our product candidates will likely require us to secure licenses to additional technologies. We may not be able to secure these licenses on commercially reasonable terms, if at all.

If we are unable to enforce our intellectual property rights or if we fail to sustain and further build our intellectual property rights, we may not be able to successfully commercialize ADCETRIS or future products and competitors may be able to develop competing therapies.

Our success depends, in part, on obtaining and maintaining patent protection and successfully enforcing these patents and defending them against third-party challenges in the United States and other countries. We own multiple U.S. and foreign patents and pending patent applications for our technologies. We also have rights to issued U.S. patents, patent applications, and their foreign counterparts, relating to our monoclonal antibody, linker and drug-based technologies. Our rights to these patents and patent applications are derived in part from worldwide licenses from third parties. In addition, we have licensed certain of our U.S. and foreign patents and patent applications to third parties.

The standards that the U.S. Patent and Trademark Office, or USPTO, and foreign patent offices use to grant patents are not always applied predictably or uniformly and can change. Consequently, our pending patent applications may not be allowed and, if allowed, may not contain the type and extent of patent claims that will be adequate to conduct our business as planned. Additionally, any issued patents we currently own or obtain in the future may have a shorter patent term than expected or may not contain claims that will permit us to stop competitors from using our technology or similar technology or from copying our products. Similarly, the standards that courts use to interpret patents are not always applied predictably or uniformly and may evolve, particularly as new technologies develop. In addition, changes to patent laws in the United States or other countries may be applied retroactively to affect the validity, enforceability, or term of our patent. For example, the U.S. Supreme Court has modified some legal standards applied by the USPTO in examination of U.S. patent applications, which may decrease the likelihood that we will be able to obtain patents and may increase the likelihood of challenges to patents we obtain or license. In addition, changes to the U.S. patent system have come into force under the Leahy-Smith America Invents Act, or the America Invents Act, including changes from a "first-to-invent" system to a "first to file" system, changes to examination of U.S. patent applications and changes to the processes for challenging issued patents. These changes include provisions that affect the way patent applications are being filed, prosecuted and litigated. For example, the America Invents Act enacted proceedings involving post-issuance patent review procedures, such as inter partes review, or IPR, and post-grant review and covered business methods. These proceedings are conducted before the Patent Trial and Appeal Board, or PTAB, of the USPTO. Each proceeding has different eligibility criteria and different patentability challenges that can be raised. In this regard, the IPR process permits any person (except a party who has been litigating the patent for more than a year) to challenge the validity of some patents on the grounds that it was anticipated or made obvious by prior art. As a result, non-practicing entities associated with hedge funds, pharmaceutical companies who may be our competitors and others have challenged certain valuable pharmaceutical U.S. patents based on prior art through the IPR process. A decision in such a proceeding adverse to our interests could result in the loss of valuable patent rights which would have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any event, the America Invents Act and any other potential future changes to the U.S. patent system could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We rely on trade secrets and other proprietary information where we believe patent protection is not appropriate or obtainable. However, trade secrets and other proprietary information are difficult to protect. We have taken measures to protect our unpatented trade secrets and know-how, including the use of confidentiality and assignment of inventions agreements with our employees, consultants and certain contractors. It is possible, however, that these persons may breach the agreements or that our competitors may independently develop or otherwise discover our trade secrets or other proprietary information. Our research collaborators may publish confidential data or other restricted information to which we have rights. If we cannot maintain the confidentiality of our technology and other confidential information in connection with our collaborations, then our ability to receive patent protection or protect our proprietary information may be impaired.

We may incur substantial costs and lose important rights or may not be able to continue to commercialize ADCETRIS or to commercialize any of our product candidates that may be approved for commercial sale as a result of litigation or other proceedings relating to patent and other intellectual property rights, and we may be required to obtain patent and other intellectual property rights from others.

We may face potential lawsuits by companies, academic institutions or others alleging infringement of their intellectual property. Because patent applications can take a few years to publish, there may be currently pending applications of which we are unaware that may later result in issued patents that adversely affect the continued commercialization of ADCETRIS or future commercialization of our product candidates in development. In addition, we are monitoring the progress of multiple pending patent applications of other organizations that, if granted, may require us to license or challenge their enforceability in order to continue commercializing ADCETRIS or to commercialize our product candidates that may be approved for commercial sale. Our challenges to patents of other organizations may not be successful, which may affect our ability to commercialize ADCETRIS or our product candidates. As a result of the patent infringement lawsuits that have been filed or may be filed against us in the future by third parties alleging infringement by us of patent or other intellectual property rights, we may be required to pay substantial damages, including lost profits, royalties, treble damages, attorneys' fees and costs, for past infringement if it is ultimately determined that our products infringe a third party's intellectual property rights. Even if infringement claims against us are without merit, the results may be unpredictable. In addition, defending lawsuits takes significant time, may be expensive and may divert management's attention from other business concerns. Further, we may be stopped from developing, manufacturing or selling our products until we obtain a license from the owner of the relevant technology or other intellectual property rights, or be forced to undertake costly design-arounds, if feasible. If such a license is available at all, it may require us to pay substantial royalties or other fees.

We are or may be from time to time involved in the defense and enforcement of our patent or other intellectual property rights in a court of law, USPTO interference, IPR, post-grant review or reexamination proceeding, foreign opposition proceeding or related legal and administrative proceeding in the United States and elsewhere. In addition, if we choose to go to court to stop a third party

from infringing our patents, that third party has the right to ask the court to rule that these patents are invalid, not infringed and/or should not be enforced. Under the America Invents Act, a third party may also have the option to challenge the validity of certain patents at the PTAB, whether they are accused of infringing our patents or not, and certain entities associated with hedge funds, pharmaceutical companies and other entities have challenged valuable pharmaceutical patents through the IPR process. These lawsuits and administrative proceedings are expensive and consume time and other resources, and we may not be successful in these proceedings or in stopping infringement. In addition, there is a risk that a court will decide that these patents are not valid or not infringed or otherwise not enforceable, or that the PTAB will decide that certain patents are not valid, and that we do not have the right to stop a third party from using the patented subject matter. Successful challenges to our patent or other intellectual property rights through these proceedings could result in a loss of rights in the relevant jurisdiction and may allow third parties to use our proprietary technologies without a license from us or our collaborators, which may also result in loss of future royalty payments. Furthermore, if such challenges to our rights are not resolved promptly in our favor, our existing business relationships may be jeopardized and we could be delayed or prevented from entering into new collaborations or from commercializing potential products, which could adversely affect our business and results of operations. In addition, we may challenge the patent or other intellectual property rights of third parties and if we are unsuccessful in actions we bring against the rights of such parties, through litigation or otherwise, and it is determined that we infringe the intellectual property rights of such parties, we may be prevented from commercializing potential products in the relevant jurisdiction, or may be required to obtain licenses to those rights or develop or obtain alternative technologies, any of which could harm our business.

If we lose our key personnel or are unable to attract and retain additional qualified personnel, our future growth and ability to compete would suffer.

We are highly dependent on the efforts and abilities of the principal members of our senior management. Additionally, we have scientific personnel with significant and unique expertise in monoclonal antibodies, ADCs and related technologies, and tucatinib. The loss of the services of any one of the principal members of our managerial or scientific staff may prevent us from achieving our business objectives. With respect to tucatinib, we expect to rely on the experience and expertise of personnel formerly employed by Cascadian in the development of tucatinib. If we were to lose the services of a significant portion or key individuals of this team, such development activities could be adversely impacted and our business could be adversely affected.

In addition, the competition for qualified personnel in the biotechnology field is intense, and our future success depends upon our ability to attract, retain and motivate highly skilled scientific, technical and managerial employees. In order to continue to commercialize ADCETRIS and advance our pipeline, we have been required to expand our workforce, particularly in the areas of manufacturing, clinical trials management, regulatory affairs, business development, sales and marketing. We continue to face intense competition for qualified individuals from numerous pharmaceutical and biotechnology companies, as well as academic and other research institutions. To the extent we are not able to retain these individuals on favorable terms or attract any additional personnel that may be required, our business may be harmed. For example, we may not be successful in attracting or retaining key personnel necessary to support our strategy to develop and commercialize ADCETRIS in earlier lines of therapy, including potentially in the ECHELON-2 treatment setting.

If we are unable to manage our growth, our business, financial condition, results of operations and prospects may be adversely affected.

We have experienced and expect to continue to experience significant growth in the number of our employees and in the scope of our operations, including in connection with the Cascadian Acquisition and our acquisition of, and planned operation of, a manufacturing facility. This growth places significant demands on our management, operational and financial resources, and our current and planned personnel, systems, procedures and controls may not be adequate to support our growth. To effectively manage our growth, we must continue to improve existing, and implement new, operational and financial systems, procedures and controls and must expand, train and manage our growing employee base, and there can be no assurance that we will effectively manage our growth without experiencing operating inefficiencies or control deficiencies. We expect that we may need to increase our management personnel to oversee our expanding operations, and recruiting and retaining qualified individuals is difficult. In addition, the physical expansion of our operations may lead to significant costs and may divert our management and capital resources. If we are unable to manage our growth effectively, or are unsuccessful in recruiting qualified management personnel, our business, financial condition, results of operations and prospects may be adversely affected.

Product liability and product recalls could harm our business, and we may not be able to obtain adequate insurance to protect us against product liability losses.

The current and future use of ADCETRIS by us and our corporate collaborators in clinical trials and the sale of ADCETRIS, expose us to product liability claims. These claims have and may in the future be made directly by patients or healthcare providers or

indirectly by pharmaceutical companies, our corporate collaborators or others selling such products. Additionally, in connection with our acquisition of the manufacturing facility from BMS, we have agreed to enter into certain transitional services agreements under which we expect to manufacture certain clinical drug product components for BMS for a period of time. As a result, it is possible that we may be named as a defendant in product liability suits that may allege that drug products we manufacture for BMS have resulted in injury to patients. We may experience substantial financial losses in the future due to product liability claims. We have obtained product liability coverage, including coverage for human clinical trials and product sold commercially. However, such insurance is subject to coverage limits and exclusions, as well as significant deductibles. However, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against all losses. If a successful product liability claim or series of claims is brought against us for uninsured liabilities or in excess of insured amounts, our assets may not be sufficient to cover such claims and our business operations could be impaired.

Product recalls may be issued at our discretion, or at the discretion of government agencies and other entities that have regulatory authority for pharmaceutical sales. Any recall of ADCETRIS could materially adversely affect our business by rendering us unable to sell ADCETRIS for some time and by adversely affecting our reputation.

Risks associated with operating in foreign countries could materially adversely affect our business.

We are expanding our operations internationally, and we currently have subsidiaries in Australia, Canada, Ireland, Luxembourg, Switzerland and the United Kingdom. Consequently, we are, and will continue to be, subject to risks related to operating in foreign countries. Risks associated with conducting operations in foreign countries include:

- diverse regulatory, financial and legal requirements, and any future changes to such requirements, in one or more countries where we are located or do business;
- differing payor reimbursement regimes, governmental payors or patient self-pay systems and price controls;
- adverse tax consequences, including changes in applicable tax laws and regulations;
- applicable trade laws, tariffs, export quotas, custom duties or other trade restrictions and any changes to them;
- economic weakness, including inflation, or political or economic instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- foreign currency fluctuations, which could result in increased operating expenses or reduced revenues, and other obligations incident to doing business or operating in another country;
- liabilities for activities of, or related to, our international operations;
- workforce uncertainty in countries where labor unrest is more common than in the United States; and
- laws and regulations relating to data security and the unauthorized use of, or access to, commercial and personal information.

For example, since a significant proportion of the regulatory framework in the U.K. is derived from European Union directives and regulations, Brexit could materially change the regulatory regime applicable to our operations and those of our collaborators, including with respect to marketing authorizations for ADCETRIS and our product candidates. We may also face new regulatory costs and challenges as result of Brexit that could have a material adverse effect on our operations. Depending on the terms of Brexit, the U.K. could lose the benefits of global trade agreements negotiated by the European Union on behalf of its members, which may result in increased trade barriers which could make our doing business in Europe more difficult. In addition, currency exchange rates for the British Pound and the Euro with respect to each other and the U.S. dollar have already been affected by Brexit. Should this foreign exchange volatility continue, it could cause volatility in our quarterly financial results. In any event, we cannot predict to what extent these changes will impact our business or results of operations, or our ability to conduct operations in Europe. In addition, President Trump has recently imposed tariffs on certain U.S. imports, and we cannot predict what effects such tariffs and any retaliatory tariffs imposed by other countries on U.S. exports would have on our business. However, these tariffs and other trade restrictions could increase our cost of doing business, reduce our gross margins or otherwise negatively impact our financial results.

These and other risks described elsewhere in these risk factors associated with expanding our international operations could materially adversely affect our business.

Our operations involve hazardous materials and are subject to environmental, health and safety controls and regulations.

We are subject to environmental, health and safety laws and regulations, including those governing the use of hazardous materials, and we spend considerable time complying with such laws and regulations. Our business activities involve the controlled use of hazardous materials and although we take precautions to prevent accidental contamination or injury from these materials, we cannot completely eliminate the risk of using these materials. In addition, with respect to our manufacturing facility, we may incur substantial costs to comply with environmental laws and regulations and may become subject to the risk of accidental contamination or injury from the use of hazardous materials in our manufacturing process. It is also possible that our manufacturing facility may expose us to environmental liabilities associated with historical site conditions that we are not currently aware of and did not cause. In this regard, some environmental laws impose liability for contamination on current owners and operators of affected sites, regardless of fault. In the event of an accident or environmental discharge, or new or previously unknown contamination is discovered or new cleanup obligations are otherwise imposed in connection with any of our currently or previously owned or operated facilities, we may be held liable for any resulting damages, which may materially harm our business, financial condition and results of operations.

If any of our facilities are damaged or our clinical, research and development or other business processes are interrupted, our business could be seriously harmed.

We conduct most of our business in a limited number of facilities in Bothell and Seattle, Washington. Damage or extended periods of interruption to our corporate, development or research facilities due to fire, natural disaster, power loss, communications failure, unauthorized entry or other events could cause us to cease or delay development of some or all of our product candidates or interrupt the sales process for ADCETRIS. Although we maintain property damage and business interruption insurance coverage on these facilities, our insurance might not cover all losses under such circumstances and our business may be seriously harmed by such delays and interruption.

If we experience a significant disruption in our information technology systems or breaches of data security, our business could be adversely affected.

We rely on information technology systems to keep financial records, capture laboratory data, maintain clinical trial data and corporate records, communicate with staff and external parties and operate other critical functions. Our information technology systems are potentially vulnerable to disruption due to breakdown, malicious intrusion and computer viruses or other disruptive events including but not limited to natural disaster. If we were to experience a prolonged system disruption in our information technology systems or those of certain of our vendors, it could delay or negatively impact the development and commercialization of ADCETRIS and our product candidates, which could adversely impact our business. Although we maintain offsite back-ups of our data, if operations at our facilities were disrupted, it may cause a material disruption in our business if we are not capable of restoring function on an acceptable timeframe. In addition, our information technology systems are potentially vulnerable to data security breaches—whether by employees or others—which may expose sensitive or personal data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, patients in our clinical trials, customers and others, any of which could have a material adverse effect on our business, financial condition and results of operations. Moreover, a security breach or privacy violation that leads to disclosure or modification of, personally identifiable information or personal data, could harm our reputation, compel us to comply with federal, state and/or international breach notification laws, subject us to mandatory corrective or regulatory action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect personal data, including GDPR, which could disrupt our business, result in increased costs or loss of revenue, and/or result in significant legal and financial exposure. In addition, a data security breach could result in loss of clinical trial data or damage to the integrity of that data. If we are unable to implement and maintain adequate organizational and technical measures to prevent such security breaches or privacy violations, or to respond adequately in the event of a breach, our operations could be disrupted, and we may suffer loss of reputation, problems with regulatory authorities, financial loss and other negative consequences. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above.

Increasing use of social media could give rise to liability.

We are increasingly relying on social media tools as a means of communications. To the extent that we continue to use these tools as a means to communicate about ADCETRIS and our product candidates or about the diseases that ADCETRIS and our product candidates are intended to treat, there are significant uncertainties as to either the rules that apply to such communications, or as to the interpretations that health authorities will apply to the rules that exist. As a result, despite our efforts to comply with applicable rules,

there is a significant risk that our use of social media for such purposes may cause us to nonetheless be found in violation of them. Such uses of social media could have a material adverse effect on our business, financial condition and results of operations.

Legislative actions and new accounting pronouncements are likely to impact our future financial position or results of operations.

Future changes in financial accounting standards may cause adverse, unexpected revenue fluctuations and affect our financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with frequency in the past and are expected to occur again in the future and as a result we may be required to make changes in our accounting policies. Those changes could adversely affect our reported revenues and expenses, future profitability or financial position. Compliance with new regulations regarding corporate governance and public disclosure may result in additional expenses.

For example, in May 2014, the Financial Accounting Standards Board, or FASB, issued an Accounting Standards Update entitled "ASU 2014-09, Revenue from Contracts with Customers" which replaced previous revenue recognition guidance under U.S. GAAP when it became effective for us on January 1, 2018. The new standard did not generally change the way in which we recognize product revenue from sales of ADCETRIS. However, sales-based royalties and commercial sales-based milestones are now recorded in the period of the related sale based on estimates, rather than recording them as reported by the customer. In addition, the achievement of development milestones under our collaborations will be recorded in the period their achievement becomes probable, which may result in their recognition earlier than under prior accounting principles. Additionally, on January 1, 2018, we adopted ASU 2016-01 "Financial Instruments: Overall," and as a result, we will record changes in the fair value of equity securities in net income or loss, which is expected to increase the volatility of net income or loss to the extent that we continue to hold common stock or other equity securities. In any event, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenues and costs, could have a significant impact on our reported results. In addition, compliance with new regulations regarding corporate governance and public disclosure may result in additional expenses. As a result, we intend to invest all reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from science and business activities to compliance activities.

The future impairment of in-process research and development and goodwill related to the Cascadian Acquisition may negatively affect our results of operations and financial position.

As of March 31, 2018, we had recorded $551.0 million of in-process research and development and goodwill related to the Cascadian Acquisition. In process research and development and goodwill are subject to an impairment analysis whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Additionally, goodwill and indefinite-lived assets are subject to an impairment test at least annually. Events giving rise to impairment are an inherent risk in the pharmaceutical industry and cannot be predicted. Our results of operations and financial position in future periods could be negatively impacted should future impairments of in-process research and development or goodwill occur.

Our and Cascadian's actual financial positions and results of operations may differ materially from the unaudited pro forma financial information that we filed as exhibit 99.2 to our current report on Form 8-K, filed with the SEC on January 31, 2018, or the January Form 8-K.

The pro forma financial information that we filed as exhibit 99.2 to the January Form 8-K was presented for illustrative purposes only and may not be an indication of what our financial position or results of operations would have been had the transactions been completed on the dates indicated. The pro forma financial information was derived from our and Cascadian's historical financial statements and certain adjustments and assumptions were made regarding the combined company after giving effect to the indicated transactions. The assets and liabilities of Cascadian were measured at fair value based on various preliminary estimates using assumptions that our management believed were reasonable utilizing information available at the time. The process for estimating the fair value of acquired assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates. These estimates may be revised as additional information becomes available and as additional analyses are performed. In particular, the pro forma financial information that we filed as exhibit 99.2 to the January Form 8-K assumed that we would utilize a senior secured bridge loan facility, or the Bridge Facility, to finance a portion of the costs of the Cascadian Acquisition; however, we used the net proceeds from our public offering of our common stock that we completed in February 2018 to fund a portion of the costs of the Cascadian Acquisition in lieu of any borrowing pursuant to the Bridge Facility. Accordingly, the pro forma financial information does not reflect the actual financing of the Cascadian Acquisition. Differences between preliminary estimates in the pro forma financial information and the final acquisition accounting, as well as between the assumed and actual financing sources and terms, will occur and could have a material impact on the pro forma financial information and the combined company's financial position and future results of operations.

Risks Related to Our Common Stock

Our stock price is volatile and our shares may suffer a decline in value.

The market price of our stock has in the past been, and is likely to continue in the future to be, very volatile. During the first quarter of 2018, our closing stock price fluctuated between $50.14 and $59.32 per share. As a result of fluctuations in the price of our common stock, you may be unable to sell your shares at or above the price you paid for them. The market price of our common stock may be subject to substantial volatility in response to many risk factors listed in this section, and others beyond our control, including:

- the level of ADCETRIS sales in the United States, Canada, the European Union, Japan and other countries in which Takeda has received approval by relevant regulatory authorities;
- announcements regarding the results of discovery efforts and preclinical, clinical and commercial activities by us, or those of our competitors;
- announcements of FDA or foreign regulatory approval or non-approval of ADCETRIS, or specific label indications for or restrictions, warnings or limitations in its use, or delays in the regulatory review or approval process;
- announcements regarding the results of the clinical trials we, Takeda and/or BMS are conducting or may in the future conduct for ADCETRIS, including the ECHELON-2 trial and the CHECKMATE 812 trial;
- announcements regarding the results of the clinical trials we and our collaborators are conducting for enfortumab vedotin, tucatinib and tisotumab vedotin;
- announcements regarding, or negative publicity concerning, adverse events or safety concerns associated with the use of ADCETRIS or our product candidates;
- issuance of new or changed analysts' reports and recommendations regarding us or our competitors;
- termination of or changes in our existing collaborations or licensing arrangements, especially our ADCETRIS collaboration with Takeda, our enfortumab vedotin co-development collaboration with Astellas, and our tisotumab vedotin co-development collaboration with Genmab, or establishment of new collaborations or licensing arrangements;
- our failure to achieve the perceived benefits of our strategic transactions, including the Cascadian Acquisition, as rapidly or to the extent anticipated by financial analysts or investors;
- our entry into additional material strategic transactions including licensing or acquisition of products, businesses or technologies;
- actions taken by regulatory authorities with respect to our product candidates, our clinical trials or our regulatory filings;
- our raising of additional capital and the terms upon which we may raise any additional capital;
- market conditions for equity investments in general, or the biotechnology or pharmaceutical industries in particular;
- developments or disputes concerning our proprietary rights;
- developments regarding the pending and potential additional related purported securities class action lawsuits, as well as any other potential litigation;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- changes in government regulations; and
- economic or other external factors.

The stock markets in general, and the markets for biotechnology and pharmaceutical stocks in particular, have historically experienced significant volatility that has often been unrelated or disproportionate to the operating performance of particular companies. For example, negative publicity regarding drug pricing and price increases by pharmaceutical companies has negatively impacted, and may continue to negatively impact, the markets for biotechnology and pharmaceutical stocks. Likewise, as a result of Brexit and/or significant changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade and health care spending and delivery, including the possible repeal and/or replacement of all or portions of PPACA or tariffs and other restrictions on free trade stemming from Trump Administration and foreign government policies, the financial markets could experience significant volatility that could also negatively impact the markets for biotechnology and pharmaceutical stocks. These broad market fluctuations have adversely affected and may in the future adversely affect the trading price of our common stock.

In the past, class action or derivative litigation has often been instituted against companies whose securities have experienced periods of volatility in market price. In this regard, we have become, and may in the future again become, subject to claims and litigation alleging violations of the securities laws or other related claims, which could harm our business and require us to incur significant costs. The pending purported securities class action lawsuit and any additional lawsuits brought against us could result in substantial costs, which would hurt our financial condition and results of operations and divert management's attention and resources, which could result in delays of our clinical trials or our development and commercialization efforts.

Substantial future sales of shares of our common stock or equity-related securities could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock into the public market, including sales by members of our management or board of directors or entities affiliated with such members, could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock and could impair our ability to raise capital through the sale of additional equity or equity-related securities. We are unable to predict the effect that such sales may have on the prevailing market price of our common stock. As of March 31, 2018, we had 158,168,692 shares of common stock outstanding, all of which shares are eligible for sale in the public market, subject in some cases to the volume limitations and manner of sale and other requirements under Rule 144. In addition, we may issue a substantial number of shares of our common stock or equity-related securities, including convertible debt, to meet our capital needs, including in connection with funding potential future acquisition or licensing opportunities, capital expenditures or product development costs, which issuances could be substantially dilutive and could adversely affect the market price of our common stock. Likewise, future issuances by us of our common stock upon the exercise, conversion or settlement of equity-based awards or other equity-related securities would dilute existing stockholders' ownership interest in our company and any sales in the public market of these shares, or the perception that these sales might occur, could also adversely affect the market price of our common stock.

Moreover, we have in the past and may in the future grant rights to some of our stockholders that require us to register the resale of our common stock or other securities on behalf of these stockholders and/or facilitate public offerings of our securities held by these stockholders, including in connection with potential future acquisition or capital-raising transactions. For example, in connection with our September 2015 public offering of common stock, we entered into a registration rights agreement with entities affiliated with Baker Bros. Advisors LP, or the Baker Entities, that together, based on information available to us, collectively beneficially owned approximately 32% of our common stock as of March 12, 2018. Under the registration rights agreement, if at any time and from time to time the Baker Entities demand that we register their shares of our common stock for resale under the Securities Act of 1933, as amended, or the Securities Act, we would be obligated to effect such registration. On October 12, 2016, pursuant to the registration rights agreement, we registered for resale, from time to time, up to 44,059,594 shares of our common stock held by the Baker Entities. Our registration obligations under the registration rights agreement cover all shares now held or hereafter acquired by the Baker Entities, will continue in effect for up to ten years, and include our obligation to facilitate certain underwritten public offerings of our common stock by the Baker Entities in the future. If the Baker Entities, by its exercise of these registration and/or underwriting rights in the future, or otherwise, sell a large number of our shares, or the market perceives that the Baker Entities intend to sell a large number of our shares, including in connection with our October 2016 registration of shares held by the Baker Entities for resale, this could adversely affect the market price of our common stock. We have also filed registration statements to register the sale of our common stock reserved for issuance under our equity incentive and employee stock purchase plans. Accordingly, these shares will be able to be freely sold in the public market upon issuance as permitted by any applicable vesting requirements.

Our existing stockholders have significant control of our management and affairs.

Our executive officers and directors and holders of greater than five percent of our outstanding voting stock, together with entities that may be deemed affiliates of, or related to, such persons or entities, beneficially owned approximately 51% of our voting power as of March 12, 2018. As a result, these stockholders, acting together, are able to control our management and affairs

and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying, deferring or preventing a change in control, including a merger, consolidation, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control, which might affect the market price of our common stock.

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017, or the Tax Act, which significantly revises the Internal Revenue Code of 1986, as amended. The Tax Act, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits (including reducing the business tax credit for certain clinical testing expenses incurred in the testing of certain drugs for rare diseases or conditions). Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Act is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the Tax Act. The impact of the Tax Act on holders of our common stock is also uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

Anti-takeover provisions could make it more difficult for a third party to acquire us.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders, which authority could be used to adopt a "poison pill" that could act to prevent a change of control of Seattle Genetics that has not been approved by our Board of Directors. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of Seattle Genetics without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. Further, certain provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of Seattle Genetics, which could have an adverse effect on the market price of our stock. In addition, our charter documents provide for a classified board, which may make it more difficult for a third party to gain control of our Board of Directors. Similarly, state anti-takeover laws in Delaware and Washington related to corporate takeovers may prevent or delay a change of control of Seattle Genetics.

Item 5. Other Information

On April 21, 2018, the Compensation Committee of our Board of Directors approved a discretionary bonus in the amount of $10,000 plus a gross up for taxes for each of Todd Simpson, our Chief Financial Officer, and Jean Liu, our Executive Vice President of Legal Affairs and General Counsel, based on their exceptional performance in connection with our recent underwritten public offering and the Cascadian Acquisition.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporation By Reference			
		Form	SEC File No.	Exhibit	Filing Date
2.1**	Agreement and Plan of Merger, dated January 30, 2018, among Seattle Genetics, Inc., Valley Acquisition Sub, Inc. and Cascadian Therapeutics, Inc.	8-K	000-32405	2.1	1/31/2018
3.1	Fourth Amended and Restated Certificate of Incorporation of Seattle Genetics, Inc.	10-Q	000-32405	3.1	11/07/2008
3.2	Certificate of Amendment of Fourth Amended and Restated Certificate of Incorporation of Seattle Genetics, Inc.	8-K	000-32405	3.3	5/26/2011
3.3	Amended and Restated Bylaws of Seattle Genetics, Inc.	8-K	000-32405	3.1	11/25/2015
4.1	Specimen Stock Certificate.	S-1/A	333-50266	4.1	2/08/2001
4.2	Investor Rights Agreement dated July 8, 2003 among Seattle Genetics, Inc. and certain of its stockholders.	10-Q	000-32405	4.3	11/07/2008
4.3	Registration Rights Agreement, dated September 10, 2015, between Seattle Genetics, Inc. and the persons listed on Schedule A attached thereto.	8-K	000-32405	10.1	9/11/2015
10.1+	License Agreement between Cascadian Therapeutics, Inc. and Array BioPharma Inc. dated December 11, 2014.	—	—	—	—
10.2*	Compensation Information for Executive Officers and Directors	10-K	000-32405	10.70	2/15/2018
10.3	Commitment Letter, dated January 30, 2018, with Barclays Bank PLC and JPMorgan Chase Bank, N.A.	8-K	000-32405	10.1	1/31/2018
31.1+	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).	—	—	—	—
31.2+	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).	—	—	—	—
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.	—	—	—	—
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.	—	—	—	—
101.INS+	XBRL Instance Document.	—	—	—	—
101.SCH+	XBRL Taxonomy Extension Schema Document.	—	—	—	—
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.	—	—	—	—
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.	—	—	—	—
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document.	—	—	—	—
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.	—	—	—	—

\+ Filed herewith.
* Indicates a management contract or compensatory plan or arrangement.
** Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant will furnish copies of any such schedules to the Securities and Exchange Commission as required by Rule 24b-2 under the Securities Exchange Act of 1934.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEATTLE GENETICS, INC.

By: **/s/ TODD E. SIMPSON**
Todd E. Simpson
Duly Authorized and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: April 26, 2018

Exhibit 10.1

Execution Copy

LICENSE AGREEMENT

This License Agreement (this "**Agreement**"), entered into as of December 11, 2014 (the "**Effective Date**"), is made by and between Array BioPharma Inc., a Delaware corporation, having offices at 3200 Walnut Street, Boulder, Colorado 80301, and Oncothyreon Inc., a Delaware corporation, having offices at 2601 Fourth Ave., Suite 500, Seattle WA 98121.

BACKGROUND

A. Oncothyreon and Array were parties to a Development and Commercialization Agreement entered into between the parties on May 29, 2013 (the "**Original Agreement**") under which the parties have been collaborating with respect to the development of ARRY-380 (as defined below).

B. Array owns the Array Technology (as defined below) and Oncothyreon desires to obtain an exclusive license under Array's rights in the Array Technology on the terms and conditions set forth below.

C. Oncothyreon and Array desire that the Original Agreement will be terminated and superseded by this Agreement as of the Effective Date.

NOW THEREFORE, for and in consideration of the covenants, conditions, and undertakings hereinafter set forth, it is agreed by and between the Parties as follows:

ARTICLE 1
DEFINITIONS

Unless the context otherwise requires, the terms in this Agreement with initial letters capitalized shall have the meanings set forth below, or the meaning as designated in the indicated places throughout this Agreement.

1.1 "**Affiliate**" means any entity which controls, is controlled by or is under common control with Oncothyreon or Array. For purposes of this definition, "control" means beneficial ownership (direct or indirect) of at least fifty percent (50%) of the shares of the subject entity entitled to vote in the election of directors (or, in the case of an entity that is not a corporation, for the election of the corresponding managing authority).

1.2 "**Array**" means Array BioPharma Inc.

1.3 "**Array Indemnitees**" has the meaning set forth in Section 10.1.

1.4 "**Array Know-How**" means any Know-How Controlled by Array and/or its

Affiliates as of the Effective Date or thereafter during the term of this Agreement relating to Product that is reasonably necessary for the research, development, manufacture, use or commercialization of Product in the Field. For the avoidance of doubt, "Array Know-How" shall include Array's ownership interest in any Joint Know-How and "Array Know-How" shall not include Regulatory Filings.

1.5 "**Array Technology**" means the Array Know-How and Licensed Patents.

1.6 "**Assumed Contracts**" has the meaning set forth in Section 2.6.1.

1.7 "**Assumed Liabilities**" has the meaning set forth in Section 2.7.

1.8 "**ARRY-380**" means that certain synthetic chemical entity described in Exhibit A hereto.

1.9 "**ARRY-380 Patents**" means Licensed Patents other than the Multi-use Patents, including, without limitation, the patents and patent applications listed in Exhibit B-2 hereto.

1.10 "**Business Day**" means any day other than a Saturday, Sunday or any other day on which commercial banks in Seattle, WA or Boulder, CO, are authorized or required by law to remain closed.

1.11 "**Calendar Quarter**" means the respective periods of three (3) consecutive calendar months ending on March 31, June 30, September 30 and December 31.

1.12 "**Calendar Year**" means a period of twelve (12) consecutive calendar months ending on December 31. For purposes hereof, the period from the Effective Date through December 31, 2014 shall be deemed the first (1st) Calendar Year.

1.13 "**Change of Control**" means: (i) the acquisition, directly or indirectly, by any person, entity or "group" (within meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, by means of a transaction or series of related transactions, of (a) beneficial ownership of fifty percent (50%) or more of the outstanding voting securities of a Party (or the surviving entity, as applicable, whether by merger, consolidation, reorganization, tender offer or other similar means), or (b) all, or substantially all, of the assets of a Party and its Affiliates; or (ii) any consolidation or merger of a Party with or into any Third Party, or any other corporate reorganization involving a Third Party, in which those persons or entities that are stockholders of the Party immediately prior to such consolidation, merger or reorganization (or prior to any series of related transactions leading up to such event) own fifty percent (50%) or less of the surviving entity's voting power immediately after such consolidation, merger or reorganization.

1.14 "**Claims**" means all Third Party demands, claims, actions, proceedings and liability (whether criminal or civil, in contract, tort or otherwise) for losses, damages, reasonable legal costs and other reasonable expenses of any nature whatsoever.

1.15 "**Commercially Reasonable Efforts**" means the expenditure of those efforts and resources used consistent with the usual practice of Oncothyreon in actively and diligently pursuing development or commercialization of its other similarly important innovative pharmaceutical products with similarly significant market potential and at a similar stage in development.

1.16 "**Competing Product**" means any product, whether or not containing ARRY-380, that includes, as an active pharmaceutical ingredient, a small molecule agent that (i) directly binds to and inhibits the activity of Her-2 (ErbB-2) and (ii) selectively inhibits Her-2 (ErbB-2) with at least 10.0 times the inhibitory activity that such small molecule agent has against any other biological target. It is understood and agreed that the compound known as ARRY 543, and any salt, hydrate, solvate, clathrate, polymorph or isomer thereof, is not and shall not be deemed a Competing Product.

1.17 "**Confidential Information**" has the meaning set forth in Section 9.1.

1.18 "**Control**" or "**Controlled**" means, with respect to any Know How, Patent Rights, other intellectual property rights, or any proprietary or trade secret information ("**IP Rights**"), the legal authority or right (whether by ownership, license or otherwise) of a Party and/or its Affiliates to grant the licenses or sublicenses, of the scope set forth herein, of or under such Know How, Patent Rights, or intellectual property rights to another Person, or to otherwise disclose such proprietary or trade secret information to another Person, without (a) breaching the terms of any agreement with a Third Party, or misappropriating the proprietary or trade secret information of a Third Party or (b) giving rise to any payment obligation to any Third Party; provided, however, that if such IP Rights would otherwise be deemed to be Controlled under this definition but for the use or practice of such IP Rights being subject to a payment obligation to a Third Party, such IP Rights shall never-the-less be deemed to be Controlled by the Party granting the applicable right, license or sublicense if the other Party agrees in writing to reimburse all amounts owed to such Third Party as a result of the other Party's exercise of such right, license or sublicense.

1.19 "**Dana Farber Study**" means that certain investigator sponsored clinical trial of the Product being conducted by Dr. Nancy Lin, MD pursuant to that certain Clinical Research Support Agreement between Array and Dana Farber/Partners Cancer Care effective July 25, 2013 ("**Dana Farber Agreement**").

1.20 "**Data**" means any and all research data, results, pharmacology data, medicinal chemistry data, preclinical data, clinical data (including investigator reports (both preliminary and final), statistical analysis, expert opinions and reports, safety and other electronic databases), in any and all forms, including files, reports, raw data, source data (including patient medical records and original patient report forms, but excluding patient-specific data to the extent required by applicable laws, rules or regulations) and the like, in each case directed to, resulting from or used in the development, manufacture or commercialization of Product hereunder or under the Original Agreement.

1.21 "**Development Data**" means (i) all Data from clinical trials of the Product; and (ii) all research Data, preclinical Data, manufacturing Data and other information, together with all reports, analyses and summaries on or of such Data, in each case that are generated by or under authority of a Party either under the Development Program (as defined in the Original Agreement) or by Array with respect to ARRY-380 or a Product prior to the Effective Date. For such purposes, "Development Data" shall include (1) raw Data, study protocols, study results, analytical methodologies, manufacturing processes, materials lists, batch records, vendor information, validation documentation, and the like, and (2) expert opinions, analyses, reports and the like, relating to the Data, including in each case electronic information and databases embodying such Data.

1.22 "**EMA**" means the European Medicines Agency or any successor entity thereto.

1.23 "**Excluded Liabilities**" has the meaning set forth in Section 2.7.

1.24 "**FDA**" means the U.S. Food and Drug Administration or any successor entity thereto.

1.25 "**Field**" means all human and animal therapeutic, diagnostic and prophylactic uses.

1.26 "**First Commercial Sale**" means, with respect to a country, the first commercial sale of a Product in the Field in such country by Oncothyreon, its Affiliates or Sublicensees. Sales for clinical study purposes, "Early Access Programs" or similar uses shall not constitute a First Commercial Sale. In addition, sales of a Product by and between Oncothyreon and its Affiliates and Sublicensees shall not constitute a First Commercial Sale.

1.27 "**FTE**" means a full time equivalent person year (consisting of 1880 hours per year) of work performing the activities set forth in Sections 2.3.1 and/or 2.3.2. For clarity, indirect personnel (including support functions such as managerial, financial, legal or business development) shall not constitute FTEs. Notwithstanding the foregoing, the time of a single individual shall not account for more than one FTE for a given Calendar Year (or applicable pro-rata portion of an FTE during any Calendar Quarter or other period of less than a Calendar Year).

1.28 "**FTE Costs**" for a given period means the product of (a) the total FTEs (proportionately, on a per-FTE basis) dedicated by personnel of Array or its Affiliates in the particular period to the direct performance of Transition Services and (b) the FTE Rate.

1.29 "**FTE Rate**" means a rate per FTE equal to Three Hundred Thousand US Dollars ($300,000) per annum (which may be prorated on a daily or hourly basis as necessary) with respect to Transition Services. "FTE Rate" shall be deemed to include all direct and indirect costs of Array's FTEs (including personnel and travel expenses, and the costs of managerial, financial, legal or business development personnel supporting the activities of such FTEs).

1.30 "**GAAP**" means U.S. generally accepted accounting principles.

1.31 "**Good Clinical Practice**" means the current standards for clinical trials for pharmaceuticals, as set forth in the ICH guidelines and applicable regulations promulgated thereunder, as amended from time to time, and such standards of good clinical practice as are required by the EMA and other organizations and governmental agencies in Major EU Countries to the extent such standards are not less stringent than United States Good Clinical Practice.

1.32 "**Good Laboratory Practice**" means the current standards for laboratory activities for pharmaceuticals, as set forth in the FDA's Good Laboratory Practice regulations or the Good Laboratory Practice principles of the Organization for Economic Co-Operation and Development ("OECD"), as amended from time to time, and such standards of good laboratory practice as are required by the EMA and other organizations and governmental agencies in Major EU Countries, to the extent such standards are not less stringent than United States Good Laboratory Practice.

1.33 "**Good Manufacturing Practice**" means the part of quality assurance which ensures that products are consistently produced and controlled in accordance with the quality standards appropriate to their intended use as defined in 21 C.F.R. § 210 and 211, European Directive 2003/94/EC, Eudralex 4, Annex 16, and applicable United States, European Union, and ICH Guidance and/or regulatory requirements for a product.

1.34 "**Indemnification Claim Notice**" has the meaning set forth in Section 10.3.2.

1.35 "**Indemnified Party**" has the meaning set forth in Section 10.3.2.

1.36 "**Indemnifying Party**" has the meaning set forth in Section 10.3.2.

1.37 "**Insolvency Event**" means, in relation to either Party, any one of the following: (a) that Party is the subject of voluntary or involuntary bankruptcy proceedings instituted on behalf of or against such Party (except for involuntary bankruptcy proceedings which are dismissed within sixty (60) days); (b) an administrative receiver, receiver and manager, interim receiver, custodian, sequestrator or similar officer is appointed in respect of that Party (collectively, the "**Receiver**") and that Party has not caused the underlying action or the Receiver to be dismissed within sixty (60) days after the Receiver's appointment; (c) the Board of Directors have passed a resolution to wind up that Party (other than a resolution for the solvent reconstruction or reorganization of that Party) or to make an application for an administration order or to appoint an administrator; or (d) that Party makes a general assignment, composition or arrangement with or for the benefit of all or the majority of that Party's creditors.

1.38 "**Joint Know-How**" means any Know-How generated under the Original Agreement and/or this Agreement which is jointly owned, or jointly Controlled, by Array and Oncothyreon and/or their respective Affiliates at any time during the term of this Agreement.

1.39 "**Joint Patents**" means any Patent Rights conceived, developed or reduced to practice under the Original Agreement and/or this Agreement which are jointly owned, or jointly Controlled, by Array and Oncothyreon and/or their respective Affiliates at any time during the term of this Agreement.

1.40 "**Know-How**" means all technical information, know-how and Data, including inventions (whether patentable or not), discoveries, trade secrets, specifications, instructions, processes, formulae, materials, expertise and other technology applicable to compounds, formulations, compositions, products or to their manufacture, development, registration, use or commercialization or methods of assaying or testing them or processes for their manufacture, formulations containing them, compositions incorporating or comprising them and including all biological, chemical, pharmacological, biochemical, toxicological, pharmaceutical, physical and analytical, safety, quality control, manufacturing, preclinical and clinical Data, instructions, processes, formulae, expertise and information, relevant to the development, manufacture, use or commercialization of and/or which may be useful in studying, testing, development, production or formulation of products, or intermediates for the synthesis thereof.

1.41 "**Liabilities**" means debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured, determined or determinable, known or unknown, asserted or unasserted.

1.42 "**Licensed Patents**" means any Patent Rights Controlled by Array and/or its Affiliates as of the Effective Date or thereafter during the term of this Agreement having claims covering ARRY-380 and/or Product, their use, composition, formulation, preparation or manufacture or having claims that are reasonably necessary for the research, development, manufacture, use or commercialization of Product in the Field, including, without limitation, the patents and patent applications listed in Exhibit B hereto. For the avoidance of doubt, "Licensed Patents" shall include Array's ownership interest in any Joint Patents.

1.43 "**Lien**" means, with respect to any asset, any mortgage, deed of trust, pledge, lien, encumbrance, charge, security interest, collateral assignment, claim, charge, adverse claim of title, restriction or encumbrance of any kind in respect of such asset (including any restriction on (a) the voting of any security or the transfer of any security or other asset, (b) the receipt of any income derived from any asset, (c) the use of any asset, or (d) the possession, exercise or transfer of any other attribute of ownership of any asset).

1.44 "**Major EU Country**" means France, Germany, Italy, Spain and the United Kingdom.

1.45 "**Marketing Approval**" means, with respect to each country, approval by the FDA or the applicable health regulatory authority in or for such country that is the counterpart of the FDA, of the applicable MAA for Product filed in or for such country.

1.46 "**Marketing Approval Application**" or "**MAA**" means a New Drug Application, or similar application for Marketing Approval, required under the United States Federal Food, Drug and Cosmetics Act and the regulations promulgated thereunder, or a comparable filing for Marketing Approval in or for a given country, in each case with respect to Product.

1.47 "**Multi-use Patents**" means a subset of the Licensed Patents consisting of the patents and patent applications identified in Exhibit B-1, as the same may be updated from time-to-time to reflect applicable newly filed siblings or progeny.

1.48 "**Net Proceeds**" means all cash payments and other consideration received by Oncothyreon or one of its Affiliates for a grant of a Sublicense to a Sublicensee, including without limitation, up-front payments, milestone payments, Premium on Equity, but excluding running royalties, less any applicable withholding taxes, unless and until Oncothyreon or its Affiliates recoup such taxes through a credit against taxes due. Net Proceeds shall not include any amounts received by Oncothyreon or its Affiliates (A) for the funding of research and development activities relating to a Product at reasonable and customary rates (including, for the avoidance of doubt, periodic reimbursements, in arrears, for research and development activities undertaken after execution of the applicable Sublicense), (B) for the supply of Product at a reasonable and customary transfer price, (C) in the form of loans at reasonable and customary rates of interest, (D) as payment for equity, other than Premium on Equity, and (E) reimbursement of patent prosecution and maintenance expenses. For the avoidance of doubt, the performance of development or commercialization activities, or associated manufacturing, by a Sublicensee or its Third Party contractors shall not, by itself, constitute "other consideration" to be included within the definition of Net Proceeds. Any dispute between the Parties with respect to the determination of the value of any "other consideration" to be included within the definition of Net Proceeds shall be determined pursuant to Section 12.2.1.

(a) "**Premium on Equity**" means the amount by which cash amounts received by Oncothyreon for a particular equity security exceed the Fair Market Value of such security.

(b) "**Fair Market Value**" of an equity security means (i) if the equity security is traded on a National Exchange, then Fair Market Value shall equal the average closing sale price of a share of such equity security as reported on the National Exchange for the five (5) trading days immediately preceding, and the five (5) trading days including and following, the date payment is received for such security from the Sublicensee; (ii) if the equity

security is not traded on a National Exchange, then Fair Market Value shall be determined on the basis of the common stock equivalents of such equity security, and shall equal the effective gross price per share of a common stock equivalent of Oncothyreon (subject to appropriate adjustments for stock splits, stock dividends, recapitalizations, reorganizations and combinations) in the last sale of equity securities by Oncothyreon to Third Parties other than the Sublicensee (but including sales to such other Third Parties made at the same time as the sale to the Sublicensee) within the preceding six (6) months. If no shares have been issued as provided in subsection (ii), the board of directors of Oncothyreon shall determine the Fair Market Value in good faith, provided that Array shall have the right to request a determination by an independent expert selected by mutual agreement of the Parties.

(c) "**National Exchange**" means the New York Stock Exchange, the American Stock Exchange, any national market system (including without limitation the Nasdaq National Market), or the European or Japanese equivalent of such an exchange or market system.

(d) In the event that Oncothyreon grants a Sublicense to a Sublicensee and obtains equity or other ownership interest in the Sublicensee in consideration of such grant, then (i) to the extent that such equity is in the form of securities that are then immediately publicly tradable without restriction ("**Marketable Securities**"), Oncothyreon shall promptly distribute the applicable share thereof to Array calculated in accordance with Section 5.3; and (ii) to the extent such equity is not in the form of Marketable Securities, any cash payment received by Oncothyreon for or in respect of such equity and other ownership interests (including by way of dividend or distribution, or proceeds from sale of such equity or other ownership interest) shall be included within Net Proceeds hereunder.

1.49 "**Net Sales**" means the gross invoice price received by Oncothyreon, its Affiliates and Sublicensees, and their affiliates and sublicensees (as applicable, "**Selling Party**"), for Products sold by such Selling Party under this Agreement in arm's length sales to Third Parties less deductions allowed to the Third Party customer by the Selling Party, to the extent actually taken by the Third Party customer, on such sales for:

(a) trade, quantity, and cash discounts;

(b) credits, rebates and chargebacks (including those to managed-care entities and government agencies), and allowances or credits to customers on account of rejection or returns (including, but not limited to, wholesaler and retailer returns) or on account of retroactive price reductions affecting such Product;

(c) freight, postage and duties, and transportation charges specifically relating to Product, including handling and insurance thereto; and

(d) sales (such as VAT or its equivalent) and excise taxes, other consumption taxes, customs duties and compulsory payments to governmental authorities and any other governmental charges imposed upon the sale of the Product to Third Parties.

Sales among Oncothyreon and its Affiliates and Sublicensees and their affiliates and sublicensees shall be excluded from the computation of Net Sales, and no royalties will be payable on such sales except where such entities are end users; provided, however, that any subsequent resale to a Third Party shall be included within Net Sales. In addition, Oncothyreon may exclude from Net Sales a reasonable provision for uncollectible accounts, to the extent such reserve is determined in accordance with GAAP, consistently applied across all product lines of the particular Selling Party, until such amounts are actually collected. Net Sales shall not include, and no royalty shall be due on, Products used in clinical trials or other research and development activities, or Products given as samples. With respect to Products, if any, that are sold at a discount in "bundles" with other products or services (i.e., sold together in a single sales transaction with other products or services for which separate prices are charged in such transaction), if the amount invoiced for the applicable Products represents a discount greater than the average discount for all products and services in the applicable "bundle," then Net Sales for such "bundled" Product shall be determined using a sales price based on the average discount for all products and services in the applicable "bundle," less applicable deductions as set forth above. Any dispute between the Parties with respect to adjustments as described in the preceding sentence for Products sold in "bundles" shall be determined pursuant to Section 12.2.1.

1.50 "**Oncothyreon**" means Oncothyreon Inc.

1.51 "**Oncothyreon Indemnitees**" has the meaning set forth in Section 10.2.

1.52 "**Oncothyreon Patents**" means any Patent Rights owned or in-licensed by Oncothyreon, to the extent such Patent Rights: (a) claim inventions conceived by Oncothyreon or its third party contractors as of the Effective Date, or (b) are directed to the formulation of the Product. For the avoidance of doubt, "Oncothyreon Patents" shall include Oncothyreon's ownership interest in any Joint Patents.

1.53 "**Out-of-Pocket Costs**" means direct expenses paid or payable to Third Parties which are specifically identifiable and incurred for services or materials provided by them in support of Array's performance of the Transition Services; such expenses to have been recorded as income statement items in accordance with GAAP. For clarity, Out-of-Pocket Costs do not include capital expenditures, payments for internal salaries or benefits; facilities; utilities; general office or laboratory supplies; information technology; and the like, or any expenses incurred by FTEs (all of which shall be deemed included within the FTE Rate and not otherwise reimbursable).

1.54 "**Party**" or "**Parties**" means Array and Oncothyreon or Array or Oncothyreon, as indicated by the context.

1.55 "**Patent Rights**" means all patents and patent applications, including all divisionals, continuations, substitutions, continuations-in-part, re-examinations, reissues, additions, renewals, extensions, registrations, and supplemental protection certificates and the like of any of the foregoing.

1.56 "**Payee**" has the meaning set forth in Section 6.2.

1.57 "**Person**" means any individual, partnership, limited liability company, corporation, firm, association, unincorporated organization, joint venture, trust or other entity.

1.58 "**Payor**" has the meaning set forth in Section 6.2.

1.59 "**Phase III Clinical Trial**" means a human clinical trial that would satisfy the requirements of 21 CFR 312.21(c).

1.60 "**Product**" means a pharmaceutical preparation for human use incorporating ARRY-380 as an active ingredient.

1.61 "**Regulatory Authority**" means any governmental agency or authority responsible for granting clinical trial authorizations or Marketing Approvals for Product, including the FDA, EMA and any corresponding national or regional regulatory authorities, excluding ethics committees (national and/or local).

1.62 "**Regulatory Filings**" means, with respect to Product, any submission to a Regulatory Authority of any regulatory application together with any related correspondence and documentation (including minutes of any meetings, telephone conferences or discussions with any Regulatory Authority), and shall include, without limitation, any submission to a regulatory advisory board, marketing authorization application, and any supplement or amendment thereto. For the avoidance of doubt, Regulatory Filings shall include any IND, MAA or the corresponding application in any other country or group of countries.

1.63 "**Royalty Term**" has the meaning set forth in Section 5.6.

1.64 "**Senior Officers**" means, for Array, the Chief Executive Officer of Array BioPharma Inc. or its designee, and for Oncothyreon, the Chief Executive Officer of Oncothyreon Inc. or its designee, provided that in each case the designee shall be an individual with sufficient seniority and authority to make decisions for the matter at issue.

1.65 "**Sublicense**" means the grant of a license, sublicense or other right by Oncothyreon and/or its Affiliates to a non-Affiliate Third Party to use *and* sell Product, provided that such Third Party (a) is responsible for some or all of the marketing and promotion of Product within the applicable territory or (b) pays to Oncothyreon or its Affiliates additional consideration attributable and allocable to the license for Product (such as upfront payments, royalties or commissions) beyond the price for the purchase of Product. For the avoidance of doubt, licenses or sublicenses to Third Party distributors that do not have responsibility for promotion of Product within the applicable territory and do not pay such additional consideration, or to Third Party contract manufacturers for the purpose of manufacturing Product for Oncothyreon or Sublicensees, are not "Sublicenses."

1.66 "**Sublicensee**" means a non-Affiliate Third Party to whom Oncothyreon and/or its Affiliates have granted a Sublicense.

1.67 "**Territory"** means worldwide.

1.68 "**Third Party**" means any entity other than Array and its Affiliates and Oncothyreon and its Affiliates.

1.69 "**Third Party License(s)**" has the meaning set forth in Section 5.7.1.

1.70 "**Transition Services**" has the meaning set forth in Section 2.3.2.

1.71 "**United States**" or "**U.S.**" means the United States of America and its territories and possessions.

1.72 "**Valid Claim**" shall mean a claim of (a) an issued and unexpired patent, which has not been held permanently revoked, unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not been admitted to be invalid or unenforceable through reissue or disclaimer or otherwise; or (b) a pending patent application that has not been finally abandoned or finally rejected or expired and which has been pending for no more than seven (7) years from the date of filing of such application as a utility, non-provisional application.

1.73 Interpretation. In this Agreement unless otherwise specified:

(a) "includes" and "including" means respectively includes and including without limitation;

(b) a statute or statutory instrument or any of their provisions is to be construed as a reference to that statute or statutory instrument or such provision as the same may have been or may from time to time hereafter be amended or re-enacted;

(c) words denoting the singular shall include the plural and vice versa and words denoting any gender shall include all genders;

(d) unless the context requires a different interpretation, the word "or" has the inclusive meaning that is typically associated with the phrase "and/or";

(e) the Exhibits and other attachments form part of the operative provisions of this Agreement and references to this Agreement shall, unless the context otherwise requires, include references to the Exhibits and attachments;

(f) the headings in this Agreement are for information only and shall not be considered in the interpretation of this Agreement; and

(g) the Parties agree that the terms and conditions of this Agreement are the result of negotiations between the Parties and that this Agreement shall not be construed in favor of or against any Party by reason of the extent to which any Party participated in the preparation of this Agreement.

ARTICLE 2
TRANSFER OF RESPONSIBILITES

2.1 Termination of Original Agreement. The Parties acknowledge and agree that, subject to Section 5.2, the Original Agreement is hereby terminated in its entirety as of the Effective Date. Notwithstanding the foregoing and any provision of the Original Agreement to the contrary, only the following provisions of the Original Agreement shall survive: Sections 3.5 (first two sentences only), 12.4 and 13.1, provided that, subject to Section 5.2, the foregoing shall not be deemed to extinguish any claims, rights or obligations that accrued to a Party under the Original Agreement prior to its termination under this Section 2.1, which claims, rights and obligations shall survive.

2.2 Oncothyreon Responsibilities. Effective as of the Effective Date, Oncothyreon shall be solely responsible for all pre-clinical and clinical development, regulatory and commercialization activities for Product, as described in more detail in Article 4.

2.3 Technology Transfer.

2.3.1 Array shall deliver (or have delivered by the applicable manufacturer or other contractor) to Oncothyreon all Array Know-How Controlled by Array and/or its Affiliates that (a) physically exists as of the Effective Date, (b) is necessary, or reasonably useful for, the development and commercialization of Product and (c) has not been previously transferred to Oncothyreon. Each Party shall bear its own costs of conducting the technology transfer activities under this Section 2.3.1, provided that Array shall not be obligated to (i) devote more than sixty (60) hours of FTE time to such technology transfer activities, and (ii) perform any technology transfer activities after the first anniversary of the Effective Date. Notwithstanding the foregoing, in the event that the technology transfer contemplated in this Section 2.3.1 is not completed within the allotted sixty (60) hours of FTE time provided for above, Array agrees to provide such reasonable additional assistance as Oncothyreon may request in order to complete such transfer, subject to Oncothyreon's reimbursement of the FTE Costs and Out-of-Pocket Costs incurred by Array in providing such assistance. For clarity, physical existence means: (A) with respect to data and other information within such Know-How, that such data and other

information is physically embodied, documented, or recorded in any medium (including databases, emails, materials within such Know-How, or laboratory notebooks); and (B) with respect to materials within such Know-How, that samples or specimens of such materials have been produced and subsist as of the Effective Date. A preliminary list of the Array Know-How to be transferred is set forth in Exhibit C.

2.3.2 Array shall provide to Oncothyreon transition services assistance as requested by Oncothyreon, as set forth in more detail in Exhibit C ("**Transition Services**"). Oncothyreon shall be responsible for all FTE Costs and Out-of-Pocket Costs incurred by Array to perform the Transition Services, in accordance with the budget set forth in Exhibit C.

2.4 Product Inventory. Oncothyreon shall purchase from Array the remaining 33,000 150 mg tablets of Product owned Array for a purchase price of US $224,400. Such purchased Product, together with the Product inventory previously purchased by Oncothyreon that remains in Array's possession as of the Effective Date as set forth in Exhibit D (collectively, "**Product Inventory**") shall be made available ExW with title and risk of loss with respect to the Product Inventory passing to Oncothyreon at such time as the Product Inventory is made available on Array's loading dock for shipment.

2.5 Regulatory Filings. Array hereby assigns and shall cause to be assigned to Oncothyreon or its designee (or to the extent not so assignable, Array shall take all reasonable actions to make exclusively available to Oncothyreon or its designee the benefits of) all Regulatory Filings Controlled by Array and/or its Affiliates as of the Effective Date, including those set forth on Exhibit E.

2.6 Assumed Contracts.

2.6.1 Subject to the terms of the Agreement, Array hereby assigns, and shall cause to be assigned, to Oncothyreon, and Oncothyreon shall assume, all rights of Array under the contracts set forth on Exhibit F (collectively, the "**Assumed Contracts**").

2.6.2 Notwithstanding Section 2.6.1, this Agreement shall not constitute an agreement to assign any contract if an attempted assignment or transfer thereof, without the consent of a third party thereto, would constitute a breach or other contravention thereof or would be ineffective with respect to any party thereto. As to any such contract, Array and Oncothyreon will use commercially reasonable efforts to obtain as promptly as practicable following the Effective Date the consent of the other parties to such contract or, alternatively, written confirmation from such parties reasonably satisfactory to Oncothyreon that such consent is not required, it being understood that neither Array, Oncothyreon nor any of their respective Affiliates shall be required to pay money to any third party, commence any litigation or offer or grant any accommodation (financial or otherwise) to any third party. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would adversely affect the rights thereunder so that Oncothyreon would not in fact receive all such rights, Oncothyreon

and Array shall cooperate in a mutually agreeable arrangement pursuant to which Oncothyreon would obtain, as of and following the Effective Date, the benefits and assume the obligations thereunder in accordance with this Agreement, including subcontracting or sublicensing to Oncothyreon, or pursuant to which Array would enforce for the benefit of Oncothyreon.

2.7 Assumed Liabilities. Subject to the terms of the Agreement, Oncothyreon will assume and pay, perform and discharge when due those, and only those, Liabilities of Array under and with respect to any Assumed Contracts, to the extent that such obligations and liabilities first accrued after the Effective Date (the "**Assumed Liabilities**"). Notwithstanding any provision in this Agreement, as a material consideration and inducement to Oncothyreon to enter into this Agreement, Array will retain, and will be solely responsible for paying, performing and discharging when due, and Oncothyreon will not assume or otherwise have any responsibility or liability for, any and all Liabilities of Array (whether now existing or hereafter arising) other than the Assumed Liabilities (the "**Excluded Liabilities**"). In addition, Array shall, as requested by Oncothyreon and at Oncothyreon's cost, enforce the remedies available to Array and/or its Affiliates under the Assumed Contracts for the benefit of Oncothyreon.

2.8 Contracted Analytical Services. Oncothyreon agrees that for a period of not less than three (3) years from the Effective Date, it will continue to obtain analytical services from Array, and Array will provide such services to Oncothyreon, pursuant to a separate agreement to be entered into between the Parties within sixty (60) days following the Effective Date pursuant to good faith negotiations, which agreement shall be consistent with the terms set forth in Exhibit J and contain such other terms and conditions as are reasonable and customary for arrangements of this type.

ARTICLE 3
LICENSE; NON-COMPETE

3.1 License. Array hereby grants to Oncothyreon an exclusive (including as to Array and its Affiliates) license under the Array Technology to research, develop, make, have made, use, offer for sale, sell, import and export Products in the Territory for use in the Field. Oncothyreon shall have the right to exercise such license through its Affiliates, provided that Oncothyreon shall be responsible for the failure by its Affiliates to comply with, and Oncothyreon guarantees the compliance by each of its Affiliates with, the terms of this Agreement including all relevant restrictions, limitations and obligations.

3.2 Sublicenses. The license under Section 3.1 includes the right to grant and authorize sublicenses through multiple tiers within the scope thereof to Third Parties that Oncothyreon (or its Affiliate, as applicable), provided that:

3.2.1 Oncothyreon shall promptly notify Array of the grant of each Sublicense, and with respect to each Sublicense granted, shall provide Array with a copy of the final executed Sublicense, which Sublicense may be redacted to protect confidential information of the Sublicensee or to redact information related to any product other than the Product (but shall be sufficient, after such redactions, for Array to determine the scope of the licenses and sublicenses granted to such Sublicensee with respect to the Product and for Array to determine all payments to be made to Oncothyreon with respect to the Product under such Sublicense);

3.2.2 Oncothyreon shall be responsible for the failure of any sublicensee to comply with, and Oncothyreon guarantees the compliance by each of its sublicensees with the relevant terms of this Agreement including all relevant restrictions, limitations and obligations; and

3.2.3 Oncothyreon shall only grant Sublicenses to Third Parties it reasonably believes capable of and have resources for the development and/or commercialization, as applicable, of the Product within the territory contemplated by such sublicenses.

3.3 No Implied Licenses. Each Party acknowledges that the licenses granted under this Article 3 are limited to the scope expressly granted, and all other rights to Array's Know-How and/or Patent Rights are expressly reserved to Array. Without limiting the foregoing, it is understood that Array retains all of its rights to the Array Technology for all purposes not expressly licensed.

3.4 Section 365(n) of the Bankruptcy Code. All rights and licenses granted under or pursuant to any section of this Agreement are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, licenses of rights to "intellectual property" as defined under Section 101(35A) of the U.S. Bankruptcy Code to the extent permitted thereunder. Oncothyreon shall retain and may fully exercise all of its rights and elections under the U.S. Bankruptcy Code. Upon the bankruptcy of Array, Oncothyreon shall further be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property, and such, if not already in its possession, shall be promptly delivered to Oncothyreon, unless Array elects to continue, and continues, to perform all of its obligations under this Agreement.

3.5 Exclusivity of Efforts.

3.5.1 Non-Compete. During the period commencing on the Effective Date and ending on the fifth (5th) anniversary of the First Commercial Sale of the first Product ("**Exclusivity Period**"), neither Party nor its Affiliates will conduct, directly or indirectly, either alone or with a Third Party or by assisting any Third Party, (i) research or development with respect to, or manufacture or commercialize, a pharmaceutical product that is known by such Party or its Affiliate to be a Competing Product, or (ii) conduct a drug discovery or other research program the goal of which is to identify Competing Products.

3.5.2 Change of Control.

(a) In the event that during the Exclusivity Period Array enters into a transaction or series of transactions with a Third Party that constitutes a Change of Control of Array, then at Array's option, the non-compete(s) under Section 3.5.1 shall terminate.

(b) In the event that during the Exclusivity Period Oncothyreon enters into a transaction or series of transactions with a Third Party that constitutes a Change of Control of Oncothyreon (such Third Party referred to as an "**Acquiror**"), and such Acquiror, as of the effective date of such transaction(s), is engaged, directly or indirectly, in the development, marketing and/or sale of a Competing Product in any country in the Territory, then such Acquiror shall divest its interest in the Competing Product within eighteen (18) months of the effective date of such transaction, provided that during such period (i) no Licensed Patents are used by, and no Confidential Information of Array is used by, or disclosed in any material manner to, Acquiror or any of its Affiliates prior to the Change of Control (the "**Acquiror Group**") for use with a Competing Product, (ii) the Acquiror Group segregates the personnel and activities of Oncothyreon and its other Affiliates with respect to Product from all programs of the Acquiror Group directed to the development and/or commercialization of Competing Products, (iii) Oncothyreon shall not change its practices with respect to the development and/or commercialization of Product in a way that could reasonably be expected to (A) have a material adverse effect on the viability and marketability of Product or (B) result in the destruction, material deterioration, or material impairment of Product, and (iv) Oncothyreon shall ensure that the Acquiror Group does not take any action that would result in the destruction, material deterioration, or material impairment of Product.

ARTICLE 4
DILIGENCE

4.1 General. Oncothyreon and/or its Affiliates shall, including through Sublicensees, use Commercially Reasonable Efforts to (i) obtain Marketing Approvals for Product in the United States and the Major EU Countries, and (ii) commercialize Product in the United States and the Major EU Countries after receipt of such Marketing Approvals.

4.2 Information and Reports. Oncothyreon shall keep Array informed regarding the ongoing development and commercialization of Products through reasonably detailed reports to be provided to Array on an annual basis. Such annual reports shall include summaries of all material development activities (including regulatory activities) and results with respect to the Products in the Territory, including study results and conclusions generated therefrom with respect to all ongoing clinical trials, CMC reports and all patent applications filed. Additionally, Oncothyreon will upon Array's written request, to the extent reasonably required to confirm Oncothyreon's compliance with the obligations under Section 4.1(i) ("**Purpose**"), provide Array with the raw data generated by or on behalf of Oncothyreon in such annual period, it being understood that Array shall keep such data in strict confidence and may use such data solely for the Purpose.

ARTICLE 5
FINANCIAL PROVISIONS

5.1 Upfront Payment. In consideration of the licenses and rights granted and/or assigned to Oncothyreon hereunder, Oncothyreon shall make to Array a one-time, upfront payment of twenty million USD (US $20,000,000) within twenty (20) days after the Effective Date.

5.2 Oncothyreon Obligations under Original Agreement. In full satisfaction of all of Oncothyreon's financial obligations under the Original Agreement, Oncothyreon shall make to Array the following payments:

5.2.1 payment of all current outstanding invoices when due during December 2014 in the total amount of US $1,040,250.58;

5.2.2 payment of an amount to be specified in a new invoice to be issued in January 2015 for costs and services under the Original Agreement incurred by Array during the three months ending December 31, 2014;

5.2.3 payment of any additional amounts owing to Array under the Original Agreement not captured in (a) or (b) above, which amounts (if any) to be mutually determined by the Parties within sixty (60) days after the Effective Date.

5.3 Share of Net Proceeds. Oncothyreon shall pay Array the applicable share of Net Proceeds received by Oncothyreon from any Sublicensee during the Royalty Term as follows:

Development Stage	Share of Net Proceeds
For Sublicenses entered into prior to the treatment of the fiftieth (50th) patient in a Phase III Clinical Trial for the first Product to achieve this milestone	25%
For Sublicenses entered into prior to receipt of Marketing Approval (either in the U.S. or in the EU through the centralized process), for the first Product to achieve this milestone	20%
For Sublicenses entered into following receipt of Marketing Approval (either in the U.S. or in the EU through the centralized process), for the first Product to achieve this milestone	15%

5.4 Milestone Payments.

5.4.1 If Oncothyreon enters into a transaction or series of transactions with a Third Party that constitutes a Change of Control of Oncothyreon, and a definitive agreement or agreements for such transaction or series of transaction is executed within three (3) years following the Effective Date, then such Third Party shall pay to Array the following amounts on the first achievement of the following milestone events, with such payments due within thirty (30) days after applicable event occurs. Each payment shall be due once and only in connection with one Change of Control, regardless of how many Change of Control transactions occur and how many times and for how many Products the event may occur.

Event	Milestone Payment
1. Closing of Oncothyreon's Change of Control transaction	$ 5M
2. First Commercial Sale in US	$ 20M
3. First Commercial Sale in EU	$ 10M
4. First Commercial Sale in Japan	$ 5M
5. First achievement of annual Net Sales equal to or greater than $500M	$ 40M
6. First achievement of annual Net Sales equal to or greater than US$ 1Billion	$ 80M
7. First achievement of annual Net Sales in the Territory equal to or greater than US$1.5 Billion	$ 120M

5.4.2 Notwithstanding Section 5.4.1, if Oncothyreon enters into a Sublicense with any Third Party within three (3) years following the Effective Date and subsequently enters, within such three (3) year-period, into a transaction or series of transactions with an unrelated Third Party that constitutes a Change of Control of Oncothyreon (i.e., where such acquirer is neither a Sublicensee or an Affiliate of a Sublicensee), then no amount shall be payable under Section 5.4.1.

5.5 Royalties.

5.5.1 Royalties on Oncothyreon Net Sales. Oncothyreon shall pay Array the applicable royalty rate for Net Sales of Product during the Royalty Term by Oncothyreon and/or its Affiliates (excluding for clarity Sublicensees) as follows:

Oncothyreon Net Sales in a Given Calendar Year	Royalty Rate
Less than US$500 Million	10%
From US$500 Million to US$1.5 Billion	11%
More than US$1.5 Billion	12%

For purposes of determining the royalty rate(s) pursuant to this Section 5.5.1 that is or are applicable hereunder on the Net Sales during the Royalty Term, all Net Sales of Product in countries during the effective period of an applicable Royalty Term shall be aggregated on a Calendar Year basis.

5.5.2 Royalties on Sublicensee Net Sales. Oncothyreon shall pay Array a royalty of seven percent (7%) of Net Sales of Product during the Royalty Term by any Sublicensee, its affiliates or sublicensees. For clarity, the royalty rate in this Section 5.5.2 shall apply only to sales by Sublicensees who are arms-length Third Parties (e.g., not to acquirers or other Affiliates of Oncothyreon).

5.6 Term For Royalty Payment. Royalties payable under Section 5.5 shall be paid on a country-by-country, and Product-by-Product basis with respect to Net Sales made during the "**Royalty Term**" for that country, which is defined as the period from the date of the First Commercial Sale of the Product until the later of: (i) the expiration of the last to expire Valid Claim of the Licensed Patents or Oncothyreon Patents claiming the manufacture, use or sale of the Product in the country where it was sold; or (ii) ten (10) years following the date of the First Commercial Sale of the Product in the country where the Product was sold.

5.7 Certain Adjustments to Royalty Payments.

5.7.1 Right of Offset; Amount. If Oncothyreon, its Affiliates or any Sublicensee (or its affiliates and sublicensees) believe that it is reasonably necessary to obtain a license or similar rights to intellectual property rights of a Third Party or Third Parties for Oncothyreon, its Affiliates or any Sublicensee to research, develop, make, have made, use, offer for sale, sell, have sold, import or otherwise exploit Product ("**Third Party License(s)**"), then Oncothyreon shall have the right to credit fifty (50%) percent of any compensation (including

up-front payments, milestones and royalties) actually paid by Oncothyreon, its Affiliates or the Sublicensee (or its affiliates and sublicensees) with respect to Product under any such Third Party License(s) against royalties otherwise payable hereunder with respect to units of Product subject to a royalty under such Third Party License. Such credit against royalties payable hereunder shall be allocated as follows: (a) fifty percent (50%) of royalties payable under a Third Party License with respect the Product shall be creditable against royalties payable hereunder with respect to units of Product subject to such Third Party royalty; and (b) fifty percent (50%) of the portion of any up-front payments, milestones or other amounts payable under a Third Party License that is reasonably allocable to the exploitation of Product (as opposed to the exploitation of non-Products or other use of intellectual property that is the subject of the applicable Third Party License in a manner unrelated to Product) shall be creditable against royalties payable hereunder with respect units of Product subject to a royalty under such Third Party License, provided, however, that in neither case (i.e., under the previous sub-clauses (a) or (b)) shall the royalties payable under (1) Section 5.5.1 fall below fifty percent (50%) of the rates set forth in Section 5.5.1; and (2) Section 5.5.2 fall below four percent (4%).

5.7.2 Generic Product Reduction. This Section 5.7.2 will apply solely to royalties payable under Section 5.5. Notwithstanding the foregoing provisions of Section 5.5 (as applicable), if, in a particular Calendar Year, one or more Third Parties is or are selling a Generic Product in the Field in a country in the Territory and the sales of all such Generic Products in the Field in such country represent at least twenty-five percent (25%) of the total units of a Product and related Generic Products sold in the Field during the Royalty Term in such Calendar Year in such country, then in such case the royalty rates attributable to the Net Sales of such Product in the Field in such country during the Royalty Term shall thereafter be reduced (a) by fifty percent (50%) of the amount otherwise payable under Section 5.5.1, and (b) to four percent (4%) with respect to the royalties payable under Section 5.5.3, as applicable. For purposes of the foregoing, "**Generic Product**" means with respect to a Product, a non-proprietary product: (A) with the same active ingredient(s) and administration route as the Product; (B) that has obtained Marketing Approval from the applicable Regulatory Authority solely by means of a procedure for establishing equivalence to the Product, without the conduct of any human clinical efficacy trials; and (C) is legally marketed in such country by or under the authority of an entity other than Oncothyreon, its Affiliates or Sublicensees (including affiliates and sublicensees of its Sublicensees).

5.7.3 Maximum Reductions. Notwithstanding anything in Sections 5.7.1 and 5.7.2 to the contrary, in no event shall the Royalty Payment to Array be reduced by operation of Sections 5.7.1 and 5.7.2 (whether singly or together) to an amount less than (a) fifty percent (50%) of the amount that would otherwise be due Array under Section 5.5.1 (i.e., the royalty absent any reductions or offsets), and (b) to less than four percent (4%) with respect to the royalties payable under Section 5.5.2.

ARTICLE 6
PAYMENTS; BOOKS AND RECORDS

6.1 Foreign Exchange; Manner and Place of Payment. All dollar amounts in this Agreement are stated in, and all payments under this Agreement shall be made in, United States Dollars. With respect to amounts invoiced or incurred in a currency other than United States Dollars, the amounts shall be expressed in the currency in which such sale was originally made, or in which such cost was incurred, together with the United States Dollar equivalent using a rate of exchange as published in The Wall Street Journal (U.S. Eastern Edition) on last day of the quarter in which such sale was made or cost incurred. Payment of all sums due hereunder shall be made by check, wire transfer, or electronic funds transfer (EFT), at the payor's choice, using account information provided by the payee, which the payee may update in writing from time to time.

6.2 Taxes. In the event that applicable law requires either Party to withhold taxes with respect to any payment to be made by such Party to the other Party pursuant to this Agreement, the Party making the payment (the "**Payor**") shall withhold such taxes from the amount due and furnish the other Party (the "**Payee**") with proof of payment of such taxes within thirty (30) days of such payment, and except to the extent such withholding is required under applicable law, all payments from one Party to the other Party under this Agreement shall be made without deduction or withholding of taxes. Any such tax required to be withheld will be an expense of and borne by Payee. The Payor shall provide reasonable assistance to the Payee in Payee's efforts to claim an exemption from withholding of such taxes, obtain a refund of any such taxes withheld, or obtain a credit with respect to such taxes withheld. In order for the Payee to secure an exemption from, or a reduction in, any withholding of taxes, the Payee shall provide to the Payor such forms as are reasonably required for each type of payment to be made pursuant to the Agreement for which an exemption from, or a reduction in, any withholding of taxes is sought, and in the event that a required form previously furnished by the Payee expires, is incorrect, or is inapplicable to the type of payment to be made, due to a change in circumstances or otherwise, the Parties acknowledge that Payee may need to furnish new forms to the Payor in order to secure an exemption from, or a reduction in, any withholding of taxes with respect to such payment. All payments due pursuant to this Agreement shall be paid exclusive of any applicable value-added tax ("**VAT**") (which, if applicable, shall be payable by the Payor upon receipt of a valid VAT invoice). If the Payee is required to report any such tax, the Payor shall promptly provide the Payee with applicable receipts and other documentation necessary or appropriate for such report. In the event that the governing tax authority retroactively determines that a payment made by the Payor pursuant to this Agreement should have been subject to withholding (or to additional withholding) for taxes, and the Payor remits such withholding tax to the tax authority, the Payor will have the right to offset such amount (but not interest and penalties that may be imposed thereon) against future payment obligations of the Payor under this Agreement; provided, however, that if no further payments or insufficient further payments are available against which offset may be pursued, the Payor may pursue reimbursement by any remedy (at law or in equity) available to it.

6.3 Royalty Payments and Reports. Royalty payments under this Agreement with respect to Net Sales of Product in a given calendar quarter shall be made to Array or its designee quarterly within sixty (60) days following the applicable calendar quarter. Each royalty payment shall be accompanied by a report detailing, on a country-by-country basis for all Net Sales of Product by or under authority of Oncothyreon during the relevant three (3) month period: (i) units of Product sold, (ii) gross sales of the Product, (iii) calculation of the Net Sales (and deductions utilized in determining Net Sales), and (iv) all other calculations made in determining the applicable royalties payable on such Net Sales.

6.4 Books and Records; Accounting and Audits. Oncothyreon shall maintain complete and accurate books and records, in accordance with GAAP, which are relevant to payments to be made to Array under this Agreement, which books and records shall be sufficient in detail to verify all payment amounts due hereunder. Array shall have the right, at its own expense and not more than once in any Calendar Year during the term of this Agreement, to have an independent, certified public accountant, selected by Array, and under an obligation of confidence, audit the books and records of Oncothyreon in the location(s) where such books and records are maintained upon reasonable notice (which shall be no less than fifteen (15) business days prior written notice) and during regular business hours, and for the sole purpose of verifying the basis and accuracy of payments required and made under this Agreement. The report and communication of such accountant with respect to such an audit shall be limited to a certificate stating whether any, as applicable, report made or payment submitted during such period is accurate or inaccurate and, if a discrepancy is identified, shall also indicate the amount and if applicable, with respect to any report, the nature, of any discrepancy, and the correct information (with respect to the applicable period). Such accountant shall provide Array and Oncothyreon with a copy of each such report simultaneously. Should the audit lead to the discovery of a discrepancy: (i) to Array's detriment, Oncothyreon shall pay to Array the amount of the discrepancy within thirty (30) days of Oncothyreon's receipt of the report; or (ii) to Oncothyreon's detriment, Oncothyreon may, as applicable, credit the amount of the discrepancy against future payments payable to Array under this Agreement, and if there are no such payments payable, then Array shall pay to Oncothyreon the amount of the discrepancy within thirty (30) days of Array's receipt of the report. Additionally, in the event that the discrepancy is to Array's detriment and is greater than ten percent (10%) of the amount due for such audited period, then Oncothyreon shall pay or reimburse the reasonable cost charged by such accountant for such audit. Once Array has conducted an audit permitted by this Section 6.4 in respect of any period, it may not re-inspect Oncothyreon's books and records in respect of such period, unless a subsequent audit of a separate reporting period uncovers fraud on the part of Oncothyreon that is reasonably expected to have been occurring during the prior audited period. For clarity, however, if a discrepancy is identified by the accountant during the course of an audit and the Parties do not agree upon a resolution of such discrepancy, then Array's accountant may re-inspect the books and records to the extent reasonably relevant to resolving such discrepancy. Notwithstanding anything herein to the contrary, upon the expiration of three (3) years following the end of any Calendar Year, the right to audit, the books and records for such Calendar Year

shall expire and Oncothyreon shall be released from any liability or accountability with respect to payments as reflected in such books of Oncothyreon for such Calendar Year (including, for clarity, with respect to the calculation of royalties payable with respect to each such Calendar Year). Oncothyreon shall no longer be required to retain such books and records for any Calendar Year after the expiration of the third (3rd) Calendar Year following such Calendar Year.

6.5 Blocked Currency. If at any time legal restrictions in the Territory prevent the prompt remittance of any payments with respect to sales therein, Oncothyreon shall have the right and option to make such payments by depositing the amount thereof in local currency to Array account in a bank or depository in the Territory.

6.6 Confidentiality. Array shall treat all financial information of Oncothyreon (and its Affiliates and Sublicensees, and their respective affiliates and sublicensees) that is subject to review under this Article 6 of this Agreement (including all royalty reports) as Confidential Information of Oncothyreon.

ARTICLE 7
INTELLECTUAL PROPERTY; EXCLUSIVITY

7.1 Ownership.

7.1.1 All inventions and other Know-How arising from the Parties' activities under this Agreement, including any patent applications and patents covering such inventions and other Know-How, made solely by employees or consultants of a Party shall be owned by such Party.

7.1.2 All such inventions and other Know-How made or developed jointly by employees or consultants of both Parties shall be owned jointly by the Parties. Determination of inventorship shall be made in accordance with US patent laws and any Patent Rights with a named inventor that is an employee or consultant of each Party will be jointly owned.

7.1.3 Subject to Sections 3.1 and 3.5, each Party may use, or license to any Third Party, any jointly owned Know-How and Patent Rights for any other purpose without accounting to or obtaining the approval of the other Party.

7.2 Patent Prosecution.

7.2.1 Array shall have the right to control the preparation, filing, prosecution and maintenance of all patents and patent applications within the Licensed Patents. Array shall give Oncothyreon an opportunity to review and comment on the text of each patent application within the ARRY-380 Patents as well as any other material submissions related to the ARRY-380 Patents before filing, and shall supply Oncothyreon with a copy of such patent application as filed, together with notice of its filing date and serial number.

7.2.2 Oncothyreon shall reimburse Array for the amounts paid to Third Parties by Array in connection with the filing, prosecution and maintenance of the ARRY-380 Patents, including without limitation, amounts paid by Array as filing and maintenance fees, translation fees and amounts paid to outside patent counsel and foreign associates, provided, however, that, to the extent Array grants rights to one or more Third Parties under the ARRY-380 Patents for products other than the Product and such Third Parties are obligated to reimburse Array for such amounts, then Oncothyreon's obligation under this 7.2.2 shall be reduced on a pro rata basis based on the number of such Third Parties ("**Patent Costs**"). Array shall provide Oncothyreon with an invoice for Patent Costs on a monthly basis, and payment shall be due within thirty (30) days thereafter.

7.2.3 If Array, in its sole discretion, decides to abandon the preparation, filing, prosecution or maintenance of any patent or patent application in the ARRY-380 Patents, then Array shall notify Oncothyreon in writing thereof at least sixty (60) days prior to any due date that requires action to avoid loss of rights in connection with the applicable patent and/or patent application, and following the date of such notice Oncothyreon shall have the right, at its cost, to prosecute and maintain such patent and/or patent application in Array's name, provided that Oncothyreon shall give Array an opportunity to review and comment on the text of each patent application or other material submissions related to the ARRY-380 Patents before filing, and shall supply Array with a copy of such patent application as filed, together with notice of its filing date and serial number.

7.3 Enforcement of ARRY-380 Patents.

7.3.1 Notification of Infringement. In the event that either Party becomes aware of actual or threatened infringement of any ARRY-380 Patents in any country in the Territory by the manufacture or sale or use of a Product or a product in the Field substantially similar to a Product (in either case, an "**Infringing Product**"), it shall provide the other Party with the available evidence, if any, of such infringement.

7.3.2 Enforcement of Patent Rights. Oncothyreon, at its sole expense, shall have the initial right to initiate and control any enforcement of the ARRY-380 Patents with respect to an Infringing Product or to defend any declaratory judgments seeking to invalidate or hold the ARRY-380 Patents unenforceable (each, an "**Enforcement Action**"), in each case in Oncothyreon's own name and, if necessary for standing purposes, in the name of Array and shall consider, in good faith, the interests of Array in so doing. If Oncothyreon does not, within one hundred twenty (120) days of receipt of notice from Array, abate the infringement or file suit to enforce the ARRY-380 Patents against at least one infringing party in the Territory, Array shall have the right to take whatever action it deems appropriate to enforce the ARRY-380 Patents. The Party controlling any such enforcement action shall not settle the action or otherwise consent

to an adverse judgment in such action that diminishes the rights or interests of the non-controlling Party (including in the case of Oncothyreon, entering into any settlement admitting the invalidity of, or otherwise impairing, the ARRY-380 Patents) without the prior written consent of the other Party. All monies recovered upon the final judgment or settlement of any such suit to enforce the ARRY-380 Patents shall be shared, after reimbursement of expenses, as follows: (i) in the event that Oncothyreon brought the claim, suit or action, any remaining amount shall be shared eighty percent (80%) to Oncothyreon, 20% to Array, and (ii) in the event that Array brought the claim, suit or action, any remaining amount shall be retained by Array.

7.3.3 Cooperation. In any suit to enforce and/or defend the ARRY-380 Patents pursuant to this Section 7, the Party not in control of such suit (a) shall, at the request and expense of the controlling Party, reasonably cooperate and, to the extent possible, have its employees testify when requested and make available relevant records, papers, information, samples, specimens, and the like, and (b) further agrees to be named in and consents to join in any suit, action, or proceeding as a party to the suit, action, or proceeding to the extent necessary to establish standing in the suit, action, or proceeding.

7.4 Patent Marking. Oncothyreon agrees to mark and have its Sublicensees mark all patented Products they sell or distribute pursuant to this Agreement in accordance with the applicable patent statutes or regulations in the country or countries of manufacture and sale thereof.

7.5 Patent Term Extensions. The Parties will reasonably discuss for which Licensed Patents related to a Product to pursue in any country any patent term adjustment, patent term extension, supplemental patent protection or related extension of rights with respect to the Licensed Patents. To the extent permitted by applicable law, Array shall apply for and pursue any such adjustment, extension or protection as directed by Oncothyreon, at Oncothyreon's cost.

7.6 Multi-use Patents. For clarity, Array shall solely control, at its cost, the filing, prosecution, maintenance, enforcement and defense of the Multi-use Patents.

ARTICLE 8
REPRESENTATIONS AND WARRANTIES

8.1 General Warranties.

8.1.1 Array Warranties. Array warrants and represents to Oncothyreon that:

(a) as of the Effective Date, it is the lawful and sole owner of the Array Technology and has the full right and authority to enter into this Agreement and grant the rights and licenses granted herein, and, without limiting the foregoing, no Array Technology is subject to any Third-Party in-license agreement (except for the In-License, as defined in Exhibit G, which Array agrees not to terminate, cause to be terminated, or modify, in each case in a way that would reasonably be expected to adversely affect Oncothyreon's sublicenses under the In-License);

(b) neither Array nor its Affiliates has previously granted and will not grant any rights in conflict with the rights and licenses granted herein, other than those specified in Exhibit G;

(c) neither Array nor its Affiliates has previously granted, and will not grant during the term of this Agreement, any right, license or interest in or to the Array Technology, or any portion thereof, to manufacture, sell or use the Product that is in conflict with the rights or licenses granted under this Agreement;

(d) as of the Effective Date, it is not aware of any prior act or any fact which causes it to conclude that any Array Patent is invalid or unenforceable;

(e) during the term hereof, neither Array nor its Affiliates will grant a lien or other encumbrances on any of the subject matter of this Agreement or on any of Array's rights, benefits, or obligations hereunder or on the Array Technology, which would conflict with the rights of Oncothyreon hereunder;

(f) The Product Inventory (i) has been manufactured in compliance with of applicable Good Clinical Practices, Good Laboratory Practices or Good Manufacturing Practices, (ii) to Array's knowledge, conforms at the time of delivery to Oncothyreon with the applicable specifications and all applicable laws, rules and regulations; and (iii) is free and clear of any security interest, lien, or other encumbrance.

(g) Array and its Affiliates have performed all of the obligations required to be performed by them and are entitled to all benefits under and are not alleged to be in default in respect of, any Assumed Contract. Each of the Assumed Contracts is in full force and effect, subject only to the effect, if any, of applicable bankruptcy and other similar laws affecting the rights of creditors generally and rules of law governing specific performance, injunctive relief and other equitable remedies. There exists no default or event of default or event, occurrence, condition or act, with respect to Array or its Affiliates, or, to Array's knowledge, with respect to any other contracting party, which, with the giving of notice, the lapse of time or the happening of any other event or condition, would reasonably be expected to (i) become a material default or event of material default under any Assumed Contract or (ii) give any Third Party (A) the right to declare a default or exercise any remedy under any Assumed Contract, (B) the right to a penalty or acceleration of any payment under any Assumed Contract, or (C) the right to cancel, terminate or modify any Assumed Contract. Neither Array nor its Affiliates has received any written notice regarding any actual or possible violation or breach of, default under, or intention to cancel or modify any Assumed Contract. True, correct and complete copies of all Assumed Contracts have been provided to Oncothyreon or Oncothyreon's counsel prior to the Effective Date.

(h) As of the Effective Date, there are no pending (or to the knowledge of Array and its Affiliates, threatened) Claims arising from the Dana Farber Study or any clinical studies conducted by or on behalf of Array with respect to Product.

(i) it is currently in compliance with all material terms of the Original Agreement.

8.1.2 Oncothyreon Warranties. Oncothyreon warrants and represents to Array that:

(a) to the best of its knowledge as of the Effective Date, Oncothyreon is not engaged in contract negotiations with respect to in-licensing or acquiring any Competing Product;

(b) during the term hereof, Oncothyreon will not grant a lien or other encumbrances on any of the subject matter of this Agreement or on any of Oncothyreon's rights, benefits, or obligations hereunder or on the Array Technology, which would conflict with the rights of Array hereunder;

(c) during the term hereof, Oncothyreon will conduct the development and commercialization of the Product in accordance with applicable United States law, known or published standards of the FDA, and standards of the EMA, as applicable, and the scientific standards applicable to the conduct of such studies and activities in the United States;

(d) during the term hereof, it will employ individuals of appropriate education, knowledge, and experience to conduct or oversee the conduct of its clinical and preclinical studies of the Product;

(e) it is currently in compliance with all material terms of the Original Agreement;

(f) Oncothyreon is not engaged in discussions concerning, and is not currently intending to immediately enter into, a Sublicense with respect to the Product or a Change of Control transaction.

8.1.3 Mutual Warranty. Each of Oncothyreon and Array warrants and represents to the other Party that, as of the Effective Date:

(a) it is an entity duly organized, validly existing and in good standing under the laws of the state or country (as applicable) of its organization, is qualified to do business and is in good standing as a foreign entity in each jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification and failure to have such would prevent it from performing its obligations under this Agreement, and has full power and authority to enter into this Agreement and to carry out the provisions hereof;

(b) such Party is duly authorized, by all requisite action, to execute and deliver this Agreement and the execution, delivery and performance of this Agreement by such Party does not require any shareholder action or approval, and the person executing this Agreement on behalf of such Party is duly authorized to do so by all requisite action;

(c) the Agreement is a legal and valid obligation binding upon such Party and enforceable in accordance with its terms except as enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights; and (ii) equitable principles of general applicability.

(d) The execution, delivery and performance of the Agreement by such Party and its compliance with the terms and provisions of this Agreement does not and shall not conflict with or result in a breach of any of the terms or provisions of (i) any agreement, instrument or understanding, oral or written, to which it is a Party or by which it is bound, (ii) the provisions of its operating documents or bylaws, or (iii) any order, writ, injunction or decree of any governmental authority entered against it or by which it or any of its property is bound.

(e) neither it nor its Affiliates has received from a Third Party notice that the manufacture, sale or use of the Product would infringe any intellectual property rights of such Third Party and to its knowledge and belief, no action, suit or claim has been initiated or threatened against it or its Affiliates with respect to the Array Technology, the Oncothyreon Patents or its right to enter into and perform its obligations under this Agreement;

(f) such Party has provided to the other Party all material Development Data and other information in its possession or of which it is aware as of the Effective Date, concerning efficacy, side effects, injury, toxicity, or sensitivity, reaction and incidents or severity thereof, associated with any preclinical use, clinical use, studies, investigations, or tests with the Product (humans or animals). Such disclosure includes information contained in publicly available filings with the U.S. Securities and Exchange Commission;

(g) such Party has not employed (and, to the best of its knowledge, has not used a contractor or consultant that has employed) any individual or entity debarred by the FDA (or subject to a similar sanction of EMA), or, to the best of its knowledge, any individual who or entity which is the subject of an FDA debarment investigation or proceeding (or similar proceeding of EMA), in the conduct of any preclinical or clinical studies of Product;

(h) the preclinical and clinical studies of the Product conducted by or on behalf of such Party have been performed in accordance with applicable United States law, known or published standards of the FDA and the scientific standards applicable to the conduct of such studies and activities in the United States;

(i) Such Party and its Affiliates have employed individuals of appropriate education, knowledge, and experience to conduct or oversee the conduct of all of its clinical and preclinical studies of the Product;

(j) in the course of developing Product, neither it nor its Affiliates has conducted any development activities in violation of applicable Good Clinical Practices, Good Laboratory Practices or Good Manufacturing Practices; and

(k) All Regulatory Filings filed by such Party existing as of the Effective Date are in good standing and in compliance with applicable laws, rules and regulations.

8.2 EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATION OR EXTENDS ANY WARRANTIES OF ANY KIND EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT, OR VALIDITY OF ANY PATENTS ISSUED OR PENDING.

ARTICLE 9
CONFIDENTIALITY

9.1 Confidential Information. Except as expressly provided herein, the Parties agree that the receiving Party shall not publish or otherwise disclose and shall not use for any purpose any information furnished to it by the other Party hereto pursuant to this Agreement which if disclosed in tangible form is marked "Confidential" or with other similar designation to indicate its confidential or proprietary nature or if disclosed orally is indicated orally to be confidential or proprietary by the Party disclosing such information at the time of such disclosure and is confirmed in writing as confidential or proprietary by the disclosing Party within a reasonable time after such disclosure (collectively, "**Confidential Information**"). Notwithstanding the foregoing, Confidential Information shall not include information that, in each case as demonstrated by written documentation:

9.1.1 was already known to the receiving Party, other than under an obligation of confidentiality, at the time of disclosure or, as shown by written documentation, was developed by the receiving Party outside the Development Program (as defined in the Original Agreement) and independent of disclosure by the disclosing Party;

9.1.2 was generally available to the public or otherwise part of the public domain at the time of its disclosure to the receiving Party;

9.1.3 became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the receiving Party in breach of this Agreement; or

9.1.4 was subsequently lawfully disclosed to the receiving Party by a person other than a Party or developed by the receiving Party without reference to any information or materials disclosed by the disclosing Party.

Notwithstanding Section 9.1.1, the Parties acknowledge and agree that any Confidential Information of Array regarding the Assumed Contracts, the Product Inventory and the Regulatory Filings shall be deemed Oncothyreon's Confidential Information as of the Effective Date.

9.2 Permitted Disclosures. Notwithstanding the provisions of Section 9.1 above, each Party hereto may use and disclose the other Party's Confidential Information to the extent such use or disclosure is reasonably necessary (a) to exercise the rights granted to it, or reserved by it (provided that for purposes of clarity it is understood that Array shall not be permitted to use Confidential Information of Oncothyreon in developing other Array products), in each case under this Agreement (including without limitation in the case of Oncothyreon, the right to use and disclose, including to Sublicensees, Array Know-How to support development (including conducting clinical trials), regulatory, marketing and sales activities, public relations activities, professional services activities, and medical education activities for Product), (b) in prosecuting or defending litigation, or (c) in complying with applicable governmental regulations, submitting information to tax or other governmental authorities, and each Party may authorize its Affiliates (and in the case of Oncothyreon, its Sublicensees) to use and/or disclose the other Party's Confidential Information as set forth in the preceding sub-clauses (a) through (c), provided that, in the case of (c), if a Party is required to make any such disclosure of the other Party's Confidential Information, to the extent it may legally do so, it will give reasonable advance notice to the latter Party of such disclosure and, save to the extent inappropriate in the case of patent applications or otherwise, will use its reasonable efforts to secure confidential treatment of such information prior to its disclosure (whether through protective orders or otherwise). If the Party whose Confidential Information is to be disclosed has not filed a patent application with respect to such Confidential Information, it may require the other Party to delay the proposed disclosure (to the extent the disclosing Party may legally do so), for up to ninety (90) days, to allow for the filing of such an application.

9.3 Terms of Agreement. Subject to Section 12.11, neither Party may disclose the terms of this Agreement without the prior written consent of the other Party; provided, however, that either Party may make such a disclosure (a) to the extent required by law or by the requirements of any nationally recognized securities exchange, quotation system or over-the-counter market on which such Party has its securities listed or traded, or (b) to its legal and financial advisors, and to any actual or prospective acquirers, investors, collaborators and lenders

(as well as and to their respective legal and financial advisors) who are obligated to keep such information confidential. If such disclosure is required under sub-clause (a), the disclosing Party shall make reasonable efforts to provide the other Party with notice beforehand and to coordinate with the other Party with respect to the wording and timing of any such disclosure.

9.4 Review of Publications.

9.4.1 This Section 9.4.1 will be in effect for eighteen (18) months from the Effective Date. As soon as is practicable prior to the oral public disclosure, and prior to the submission to any outside person for publication of written material (a manuscript, poster or other publication) describing any Data generated under the Development Program (as defined in the Original Agreement) or by Oncothyreon in its subsequent development of the Product under this Agreement, in each case to the extent the contents of the oral disclosure or written material have not been previously disclosed pursuant to this Section 9.4, Oncothyreon shall disclose to Array a copy of the written material, or a written summary of any oral disclosure, to be made or submitted, and shall allow Array at least thirty (30) days to determine whether such disclosure or written material contains subject matter for which patent protection should be sought prior to publication or which Array believes should be modified to avoid disclosure of Array Confidential Information or regulatory or other problems. With respect to publications by investigators or other Third Parties, such publications shall be subject to review by the other Party under this Section 9.4 only to the extent that Oncothyreon has the right to do so; provided that Oncothyreon shall use reasonable efforts to secure the right to require and permit such review.

(a) Publication Rights. After the expiration of thirty (30) days from the date of receipt of such disclosure or written material, unless Oncothyreon has received the written notice specified below, Oncothyreon shall be free to submit such written material for publication or to orally disclose or publish the disclosed research results in any manner consistent with academic standards; provided that, in any publication permitted under this Section 9.4, Oncothyreon shall acknowledge Array as licensor of the Product unless Array requests that such acknowledgement not be made.

(b) Delay of Publication. Prior to the expiration of the thirty (30) day-period described above, Array may notify Oncothyreon in writing of its determination that such oral presentation or written material contains Confidential Information of Array or objectionable material or material that consists of patentable subject matter for which patent protection should be sought. Oncothyreon shall withhold its proposed public disclosure and confer with Array to determine the best course of action to take in order to modify the disclosure (including removing Confidential Information of Array) or to obtain patent protection. After resolution of the confidentiality, regulatory or other issues, or the filing of a patent application or due consideration as to whether a patent application can reasonably be filed, but in no event more than ninety (90) days after notification of Oncothyreon as provided above, Oncothyreon shall be free to submit the written material and/or make its public oral disclosure in a manner consistent with academic standards.

9.4.2 Advanced Copy of Publications. During the term of this Agreement, Oncothyreon agrees to use reasonable efforts to provide Array with a courtesy copy of each Oncothyreon abstract. paper, poster or other publication relating to the Product(s) in advance its publication or other initial public disclosure.

ARTICLE 10
INDEMNIFICATION

10.1 Indemnification by Oncothyreon. Oncothyreon shall indemnify and hold Array, its Affiliates and their respective officers, directors and employees ("**Array Indemnitees**") harmless from and against any Claims against them to the extent arising or resulting from:

10.1.1 the negligence or willful misconduct of Oncothyreon, its Affiliates or any of their Sublicensees or subcontractors;

10.1.2 the breach of any of the covenants, warranties or representations made by Oncothyreon to Array under this Agreement;

10.1.3 any manufacture, use or sale of Product, or any other activities related to Product, in each case conducted by or under authority of Oncothyreon, its Affiliates or any of their sublicensees after the Effective Date in the exercise of any rights licensed to Oncothyreon pursuant to Section 3.1;

10.1.4 any pre-clinical and/or clinical studies conducted by or on behalf of Oncothyreon with respect to Product prior to the Effective Date;

10.1.5 any Assumed Liabilities.

provided, however, that Oncothyreon shall not be obliged to so indemnify, defend and hold harmless the Array Indemnitees for any Claims under Section 10.2 below.

10.2 Indemnification by Array. Array shall indemnify and hold Oncothyreon, its Affiliates, and their respective officers, directors, employees and Sublicensees ("**Oncothyreon Indemnitees**") harmless from and against any Claims against them to the extent arising or resulting from:

10.2.1 the negligence or willful misconduct of Array, its Affiliates or any of their subcontractors; or

10.2.2 the breach of any of the covenants, warranties or representations made by Array to Oncothyreon under this Agreement;

10.2.3 any pre-clinical and/or clinical studies (other than the Dana Farber Study) conducted by or on behalf of Array with respect to Product prior to the Effective Date;

10.2.4 any Claims by Dana Farber/Partners Cancer Care for reimbursement of medical costs for participants in the Dana Farber Study under the subject injury provision of the Dana Farber Agreement for injuries sustained prior to the Effective Date;

10.2.5 any Excluded Liabilities.

provided, however, that Array shall not be obliged to so indemnify, defend and hold harmless the Oncothyreon Indemnitees for any Claims under Sections 10.1 above.

10.3 Indemnification Procedure.

10.3.1 For the avoidance of doubt, all indemnification claims in respect of an Oncothyreon Indemnitee or Array Indemnitee shall be made solely by Oncothyreon or Array, respectively.

10.3.2 A Party seeking indemnification hereunder ("**Indemnified Party**") shall notify the other Party ("**Indemnifying Party**") in writing reasonably promptly after the assertion against the Indemnified Party of any Claim or fact in respect of which the Indemnified Party intends to base a claim for indemnification hereunder ("**Indemnification Claim Notice**"), but the failure or delay to so notify the Indemnifying Party shall not relieve the Indemnifying Party of any obligation or liability that it may have to the Indemnified Party, except to the extent that the Indemnifying Party demonstrates that its ability to defend or resolve such Claim is adversely affected thereby. The Indemnification Claim Notice shall contain a description of the Claim and the nature and amount of the Claim (to the extent that the nature and amount of such Claim is known at such time). Upon the request of the Indemnifying Party, the Indemnified Party shall furnish promptly to the Indemnifying Party copies of all correspondence, communications and official documents (including court documents) received or sent in respect of such Claim.

10.3.3 Subject to the provisions of Sections 10.3.4 and 10.3.5, the Indemnifying Party shall have the right, upon written notice given to the Indemnified Party within thirty (30) days after receipt of the Indemnification Claim Notice to assume the defense and handling of such Claim, at the Indemnifying Party's sole expense, in which case the provisions of Section 10.3.4 below shall govern. The assumption of the defense of a Claim by the Indemnifying Party shall not be construed as acknowledgement that the Indemnifying Party is liable to indemnify any indemnitee in respect of the Claim, nor shall it constitute a waiver by the Indemnifying Party of any defenses it may assert against any Indemnified Party's claim for indemnification. In the event that it is ultimately decided that the Indemnifying Party is not obligated to indemnify or hold an Indemnitee harmless from and against the Claim, the

Indemnified Party shall reimburse the Indemnifying Party for any and all costs and expenses (including attorneys' fees and costs of suit) and any losses incurred by the Indemnifying Party in its defense of the Claim. If the Indemnifying Party does not give written notice to the Indemnified Party, within thirty (30) days after receipt of the Indemnification Claim Notice, of the Indemnifying Party's election to assume the defense and handling of such Claim, the provisions of Section 10.3.5 below shall govern.

10.3.4 Upon assumption of the defense of a Claim by the Indemnifying Party: (i) the Indemnifying Party shall have the right to and shall assume sole control and responsibility for dealing with the Claim; (ii) the Indemnifying Party may, at its own cost, appoint as counsel in connection with conducting the defense and handling of such Claim any law firm or counsel reasonably selected by the Indemnifying Party; (iii) the Indemnifying Party shall keep the Indemnified Party informed of the status of such Claim; and (iv) the Indemnifying Party shall have the right to settle the Claim on any terms the Indemnifying Party chooses; provided, however, that it shall not, without the prior written consent of the Indemnified Party, agree to a settlement of any Claim which could lead to liability or create any financial or other obligation on the part of the Indemnified Party for which the Indemnified Party is not entitled to indemnification hereunder or which admits any wrongdoing or responsibility for the claim on behalf of the Indemnified Party. The Indemnified Party shall cooperate with the Indemnifying Party and shall be entitled to participate in, but not control, the defense of such Claim with its own counsel and at its own expense. In particular, the Indemnified Party shall furnish such records, information and testimony, provide witnesses and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested in connection therewith. Such cooperation shall include access during normal business hours by the Indemnifying Party to, and reasonable retention by the Indemnified Party of, records and information that are reasonably relevant to such Claim, and making the Indemnified Party, the indemnitees and its and their employees and agents available on a mutually convenient basis to provide additional information and explanation of any records or information provided.

10.3.5 If the Indemnifying Party does not give written notice to the Indemnified Party as set forth in Section 10.3.3 above or fails to conduct the defense and handling of any Claim in good faith after having assumed such, the Indemnified Party may, at the Indemnifying Party's expense, select counsel reasonably acceptable to the Indemnifying Party in connection with conducting the defense and handling of such Claim and defend or handle such Claim in such manner as it may deem appropriate. In such event, the Indemnified Party shall keep the Indemnifying Party timely apprised of the status of such Claim and shall not settle such Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld. If the Indemnified Party defends or handles such Claim, the Indemnifying Party shall cooperate with the Indemnified Party, at the Indemnified Party's request but at no expense to the Indemnified Party, and shall be entitled to participate in the defense and handling of such Claim with its own counsel and at its own expense.

10.4 Special, Indirect and Other Losses. NEITHER PARTY NOR ANY OF ITS AFFILIATES SHALL BE LIABLE IN CONTRACT, TORT, NEGLIGENCE, BREACH OF STATUTORY DUTY OR OTHERWISE FOR ANY SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES OR FOR LOSS OF PROFITS SUFFERED BY THE OTHER PARTY, EXCEPT (A) FOR BREACH OF THE CONFIDENTIALITY OBLIGATIONS UNDER ARTICLE 9, OR (B) TO THE EXTENT ANY SUCH DAMAGES ARE REQUIRED TO BE PAID TO A THIRD PARTY AS PART OF A CLAIM FOR WHICH A PARTY PROVIDES INDEMNIFICATION UNDER THIS ARTICLE 10.

10.5 No Exclusion. Neither Party excludes any liability for death or personal injury caused by its negligence or that of its employees, agents or subcontractors.

ARTICLE 11
TERM AND TERMINATION

11.1 Term. This Agreement shall become effective as of the Effective Date and, unless earlier terminated pursuant to the other provisions of this Article 11, shall expire on a country-by-country basis upon expiration of the respective Royalty Term in such country, provided that upon such expiration in such country, Array shall grant and does hereby grant to Oncothyreon and its Affiliates a perpetual, royalty-free, non-terminable, non-revocable non-exclusive license with the right to sublicense through multiple tiers to exploit any Array Know-How in connection with the development, manufacturing and/or commercialization of Products in the Field in such country.

11.2 Termination for Cause.

11.2.1 Breach. Either Party to this Agreement may terminate this Agreement in the event the other Party shall have materially breached or defaulted in the performance of any of its material obligations hereunder, and such default shall have continued for ninety (90) days after written notice thereof was provided to the breaching Party by the non-breaching Party; provided, however, that, where the Party alleged to be in breach or default disputes in good faith within such ninety (90) day period that the claimed breach or default exists and such claimed breach or default is not solely for failure to make any undisputed payment due hereunder, the Parties shall submit the dispute to a single arbitrator appointed in accordance with the rules of the American Arbitration Association then in effect for a determination, taking into consideration the totality of the circumstances, of whether such ninety (90) day cure period should be tolled until it is finally determined in accordance with Section 12.2 below that this Agreement was materially breached. The Parties shall instruct such arbitrator to make such determination within ninety (90) days after such arbitrator is appointed. Such ninety (90) day cure period shall be tolled during the period commencing from such time as the Party alleged to be in breach disputes the failure to pay or material breach in accordance with this Section 11.2.1 until such time as the arbitrator makes his or her determination under this Section 11.2.1. If the arbitrator determines that such cure period shall be tolled pending final resolution of the dispute, the non-breaching

Party shall not have the right to terminate this Agreement unless it has been determined in accordance with Section 12.2 below that this Agreement was materially breached and the breaching Party fails to comply with its obligations within ninety (90) day after such determination. If on the other hand, the arbitrator decides that such cure period should not be tolled pending final resolution of the dispute, then such cure period shall not be tolled other than until the arbitrator makes his or her determination under this Section 11.2.1. It is understood that the finding of the arbitrator under this Section 11.2.1 shall not be binding on either Party as to the question of whether a material breach of the Agreement occurred, and shall apply only to determine whether or not the cure period should be tolled as provided in this Section 11.2.1. In any case, the final determination of whether a material breach has occurred shall be determined only pursuant to Section 12.2. Notwithstanding the foregoing, in the event of a non-monetary breach or default, if the breach or default by its nature, is curable, but is not reasonably capable of being cured within the ninety (90) day cure period, then such cure period shall be extended if the breaching Party provides a written plan for curing such breach to the notifying Party and is making a good faith efforts to cure such breach or default in accordance with such written plan, the notifying Party may not terminate this Agreement, provided, however, that the notifying Party may terminate this Agreement if such breach or default is not cured within one hundred eighty (180) days of the start of the 90-day cure period, as described above. Furthermore, in the event a material breach by Oncothyreon is with respect to Oncothyreon's failure to use of Commercially Reasonable Efforts in commercializing one or more given Products in one or more country(ies), Array's termination rights under this Section 11.2.1 shall be limited to such Product(s) and country(ies), and shall not affect other Products or countries with respect to which Oncothyreon is not in default. The right of either Party to terminate this Agreement as herein above provided shall not be affected in any way by its waiver of, or failure to take action with respect to, any previous default.

11.2.2 Termination for Insolvency. Either Array or Oncothyreon may terminate this Agreement without notice if an Insolvency Event occurs in relation to the other Party. In any event when a Party first becomes aware of the likely occurrence of any Insolvency Event in regard to that Party, it shall promptly so notify the other Party in sufficient time to give the other Party sufficient notice to protect its interests under this Agreement.

11.2.3 Other. Each Party agrees (to the extent it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim to take the benefit or advantage of, any stay or extension law or any other law wherever enacted, now or at any time hereafter in force, which would prohibit the termination of this Agreement or in any way modify the effects thereof as provided herein; and each Party (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the other Party, but will suffer and permit the execution of every power as though no such law had been enacted.

11.3 Termination on Notice. Oncothyreon may terminate this Agreement without cause at any time by giving Array one hundred eighty (180) days prior notice in writing.

11.4 Consequences of Terminations.

11.4.1 Accrued Obligations. Termination of this Agreement for any reason shall not release any Party hereto from any liability which, at the time of such termination, has already accrued to the other Party or which is attributable to a period prior to such termination nor preclude either Party from pursuing all rights and remedies it may have hereunder or at law or in equity with respect to any breach of this Agreement.

11.4.2 License. Upon any termination of the Agreement, subject to Section 11.4.4, the license granted to Oncothyreon in Section 3.1 shall terminate.

11.4.3 Upon any termination of the Agreement for any reason:

(a) Oncothyreon shall promptly assign and transfer to Array all Regulatory Filings with respect to the applicable Product(s) in the Field that are held or Controlled by or under authority of Oncothyreon or its Affiliates (including Regulatory Filings obtained by Sublicensees to the extent such Sublicensees' Sublicense(s) do not survive the termination of this Agreement), and shall take such actions and execute such other instruments, assignments and documents as may be necessary to effect the transfer of rights under such Regulatory Filings to Array. Oncothyreon shall cause each of its Affiliates and all Sublicensees whose Sublicense(s) do not survive the termination of this Agreement to transfer any such Regulatory Filings to Array if this Agreement terminates. If applicable laws, rules or regulations prevents or delays the transfer of ownership of a Regulatory Filing to Array, Oncothyreon shall grant, and does hereby grant, to Array an exclusive right of access and reference to such Regulatory Filing for the Product(s), and shall cooperate fully to make the benefits of such Regulatory Filings available to Array and/or its designee(s). Within sixty (60) days after notice of such termination, Oncothyreon shall provide to Array copies of all such Regulatory Filings, and of all preclinical and clinical data (including raw data, original records, investigator reports, both preliminary and final, statistical analyses, expert opinions and reports, safety and other electronic databases) and other Know-How information pertaining to the Product, or the manufacture thereof. Array shall be free to use and disclose such Regulatory Filings and other items in connection with the exercise of its rights and licenses under this Section 11.4.

(b) Oncothyreon shall grant, and hereby does grant, effective upon the effective date of such termination: (i) an exclusive, worldwide, royalty-bearing license to Array under any Patent Rights owned or Controlled by Oncothyreon or its Affiliates that: (A) were generated by Oncothyreon or its Affiliates in connection with the development or commercialization of the Product(s) prior to the effective date of such termination, or (B) were otherwise utilized by Oncothyreon, its Affiliates or Sublicensees in the development or commercialization of the Product(s); and (ii) a non-exclusive, worldwide, fully-paid license to Array under any Know-How that: (A) were generated by Oncothyreon or its Affiliate in

connection with the development or commercialization of the Product(s)prior to the effective date of such termination, or (B) were otherwise utilized by Oncothyreon, its Affiliates or Sublicensees in the development or commercialization of the Product(s), in each case under the preceding sub-clauses (i) and (ii) solely to the extent reasonably necessary or useful for Array to make, use, sell, offer for sale or import Product(s) in the Field as are then being developed, marketed or manufactured by Oncothyreon, its Affiliates or Sublicensees as of the date of such termination; provided, however, that (1) in consideration of the licenses granted hereunder, Array shall pay Oncothyreon a royalty on the Net Sales of Products at a royalty rate of two percent (2%) for Products that have commenced a Phase III Clinical Trial but have not obtained Regulatory Approval as of the effective date of such termination or three percent (3%) for Products that have obtained Regulatory Approval as of the effective date of such termination; and (2) if any such Patent Rights or Know-How licensed to Array hereunder is subject to payment obligations to a Third Party, Oncothyreon shall promptly disclose such obligations to Array in writing and such Patent Rights or other intellectual property shall be deemed to be Controlled by Oncothyreon only if Array agrees in writing to reimburse all amounts owed to such Third Party as a result of Array's exercise of such license. The royalty payable Array to Oncothyreon under clause (1) above shall be payable on a Product-by-Product and country-by-country basis only for so long as the sale of a particular Product in a particular country would infringe a Valid Claim of the patents being licensed to Array by Oncothyreon hereunder. For clarity, if Oncothyreon is acquired by a Third Party in a Change of Control Transaction, in no event shall the licenses granted hereunder include any Patent Rights or Know-How of such Third Party (or of those of its Affiliates that were Affiliates prior to the close of such Change of Control Transaction) that were not actually utilized in the development or commercialization of the Product(s).

(c) Oncothyreon hereby assigns and shall cause to be assigned to Array all worldwide rights in and to any and all trademarks used in connection with the commercialization of the applicable Product(s) by Oncothyreon or its Affiliates. It is understood that such assignment shall not include Oncothyreon's name or trademark for Oncothyreon's (or its Affiliates') company itself.

(d) If there are any ongoing clinical trials with respect to the Product being conducted by or on behalf of Oncothyreon, its Affiliates at the time of notice of termination, Oncothyreon agrees to (i) promptly transition to Array or its designee some or all of such clinical trials and the activities related to or supporting such trials (ii) continue to conduct such clinical trials for a period requested by Array up to a maximum of nine (9) months after the effective date of such termination, or (iii) terminate such clinical trials; in each case as requested by Array and subject to compliance with applicable laws, rules and regulations. Array shall be responsible for the costs of such transition except in the case of a termination of this Agreement by Array pursuant to Section 11.2.1, in which case Oncothyreon shall be responsible for such costs.

11.4.4 Oncothyreon and its Affiliates shall have the right to continue to distribute and sell the applicable Product(s) in each country of the Territory in which they are then marketing such Products, in accordance with the terms and conditions of this Agreement, for up to six (6) months following the effective date of termination, provided that Array may, upon written notice to Oncothyreon, to be provided within thirty (30) days from the effective date of termination, elect to purchase the quantities of Product in its or its Affiliates' Control, in which case Oncothyreon shall sell Array such quantities at a price equal to (a) Oncothyreon's or its Affiliate's fully burdened manufacturing costs, or (b) if the Product was manufactured by a Third Party manufacturer, the price paid to such manufacturer, plus in each case ten percent (10%) ("**Purchase Price**"). Additionally, if requested by Array, Oncothyreon or its Affiliates shall continue to distribute and sell the Products in each country of the Territory in which they were marketing the Products as of the date of termination, in accordance with the terms and conditions of this Agreement, for a period requested by Array not to exceed eighteen (18) months following the effective date of termination ("**Commercialization Wind-Down Period**") provided that Array may terminate this Commercialization Wind-Down Period upon ninety (90) days' notice Oncothyreon (subject to Oncothyreon's right set forth above to continue to distribute and sell the applicable Product(s), for up to six (6) months following the effective date of termination). Notwithstanding any other provision of this Agreement, during this Commercialization Wind-Down Period, Oncothyreon's and its Affiliates' rights with respect to the Products (including the licenses granted under Section 3.1) shall be non-exclusive, and Array shall have the right to engage one or more other partner(s) or distributor(s) of the Products in all or part of the Territory. The Products sold or disposed by Oncothyreon or its Affiliates during this Commercialization Wind-Down Period shall be subject to royalties under Section 5.5 above. After the Commercialization Wind-Down Period, Oncothyreon and its Affiliates shall not sell the Products or make any representation regarding their status as a licensee of or distributor for Array for the Products.

11.4.5 Oncothyreon's Sublicenses shall, at the request of Array, be assigned to Array to the furthest extent possible. In the event Array does not request assignment of such Sublicenses, then such Sublicense shall be deemed to survive, and such Sublicensee shall be considered a direct licensee of Array, provided that (a) such Sublicense was validly issued in accordance with Section 3.2, (b) as of the effective date of such termination, such Sublicensee is then in full compliance with all terms and conditions of its sublicense, (c) the duties of Array with respect to such surviving Sublicense will not be greater than the duties of Array under this Agreement, and (d) such Sublicensee agrees in writing to assume all applicable obligations of Oncothyreon under this Agreement.

11.4.6 Transition Assistance. Oncothyreon agrees to fully cooperate with Array and its designee(s) to facilitate a smooth, orderly and prompt transition of the development and commercialization of Products to Array and/or its designee(s) during the Commercialization Wind-Down Period. Without limiting the foregoing Oncothyreon shall promptly provide Array manufacturing information (including protocols for the production, packaging, testing and other

manufacturing activities) relating to the Product in Oncothyreon's Control, which in each case Array shall have the right to use and disclose for any purpose during this Commercialization Wind-Down Period and thereafter solely as reasonably necessary or useful to manufacture, or have manufactured, the Product. Upon request by Array, Oncothyreon shall transfer to Array some or all quantities of the Product in its or its Affiliates' Control (as requested by Array), within thirty (30) days after the end of this Commercialization Wind-Down Period, and Array shall buy such quantities at the Purchase Price. If any Product was manufactured by any Third Party for Oncothyreon, or Oncothyreon had contracts with vendors which contracts are necessary or useful for Array to take over responsibility for the Product in the Territory, then Oncothyreon shall to the extent possible and requested in writing by Array, assign all of the relevant Third-Party contracts to Array, and in any case, Oncothyreon agrees to cooperate with Array to ensure uninterrupted supply of the Products. If Oncothyreon or its Affiliate manufactured any Product at the time of termination, then Oncothyreon (or its Affiliate) shall continue to provide for manufacturing of such Product for Array, at its fully-burdened manufacturing cost therefor, plus ten percent (10%), from the date of notice of such termination until such time as Array is able, using diligent efforts to do so but no longer than the expiration of the Commercialization Wind-Down Period, to secure an acceptable alternative commercial manufacturing source from which sufficient quantities of the Product may be procured and legally sold in the Territory.

11.5 Survival. Articles 10 and 12, and Sections 2.1; 2.7; 3.3; 3.2.2 (with respect to each surviving Sublicense until such time as such Sublicense is assigned to Array or Array and such Sublicensee enter into a direct license agreement); 3.4; 5.3 (limited to amounts payable as to the effective date of termination or with respect to any surviving Sublicenses); Sections 5.5-5.7, 6.1-6.3 and 6.5 (limited in each case to amounts payable with respect to sales of Product as to the effective date of termination or with respect to sales of Product thereafter pursuant to 11.4.4); 6.4; 6.6; 7.1; 7.3.3 and the last sentence of 7.3.2 (in each case with respect to any ongoing enforcement actions until control of such enforcement actions is assumed by Array); 8.2, 9.1-9.3, 11.4 and 11.5 of this Agreement shall survive expiration or termination of this Agreement for any reason. Additionally, in the event of the expiration (but not an earlier termination) of this Agreement, the final clause of Section 11.1 shall survive. With respect to any termination or expiration of this Agreement, all rights and obligations of the Parties under this Agreement shall terminate upon such expiration or termination, except to the extent otherwise provided in this Article 11.5. No expiration or any termination of this Agreement shall release a Party from the obligations to make any payments that were due or had accrued as to the effective date of such termination.

ARTICLE 12
MISCELLANEOUS

12.1 Governing Law. This Agreement and any dispute arising from the performance or breach hereof shall be governed by and construed and enforced in accordance with, the laws of the State of New York, U.S.A., without reference to conflicts of laws principles. The U.N. Convention on the Sale of Goods shall not apply to this Agreement.

12.2 Particular Disputes.

12.2.1 Binding Arbitration in Certain Specified Matters. This Section 12.2.1 shall only apply to the matters expressly identified in this Agreement as subject to resolution pursuant to this Section 12.2.1. Such matters shall be referred to binding arbitration by one (1) arbitrator. In such arbitration, the arbitrator shall be an independent expert (including in the area of the dispute) in the pharmaceutical or biotechnology industry mutually acceptable to the Parties. The Parties shall use their best efforts to mutually agree upon one (1) arbitrator; provided, however, that if the Parties have not done so within ten (10) days after initiation of arbitration hereunder, or such longer period of time as the Parties have agreed to in writing, then such arbitrator shall be an independent expert as described in the preceding sentence selected by the San Francisco office of the American Arbitration Association. Such arbitration shall be limited to casting the deciding vote (i.e., a single vote) with respect to all matters subject to this Section 12.2.1 then in dispute, and in connection therewith, each Party shall submit to the arbitrator in writing its position on and desired resolution of each such matter. Such submission shall be made within ten (10) days of the selection or appointment of the arbitrator, and the arbitrator shall rule on all such matters and cast the deciding vote (i.e., a single vote) within ten (10) days of receipt of the written submissions by both Parties. Except as provided in the preceding sentence, such arbitration shall be conducted in accordance with the then-current Commercial Arbitration Rules of the American Arbitration Association. The arbitrator's vote shall be final and binding upon the Parties.

12.2.2 Other Matters. In disputed matters other than those covered by Section 12.2.1 above, the matter may be referred at the election of either Party to the Senior Officers who shall attempt in good faith to resolve such disagreement. If the Senior Officers cannot resolve such issue within thirty (30) days of the matter being referred to them, then either Party may initiate legal proceedings to resolve the matter.

12.2.3 Costs and Timing. The costs of any arbitration conducted pursuant to this Section 12.2 shall be borne equally by the Parties. The Parties shall use diligent efforts to cause the completion of any such arbitration within sixty (60) days following a request by any Party for such arbitration.

12.3 Force Majeure. Nonperformance of any Party shall be excused to the extent that performance is rendered impossible by strike, fire, earthquake, flood, governmental acts or orders or restrictions, failure of suppliers, or any other reason where failure to perform is beyond the reasonable control of the nonperforming Party.

12.4 No Implied Waivers; Rights Cumulative. No failure on the part of Array or Oncothyreon to exercise and no delay in exercising any right under this Agreement, or provided by statute or at law or in equity or otherwise, shall impair, prejudice or constitute a waiver of any such right, nor shall any partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

12.5 Independent Contractors. Nothing contained in this Agreement is intended implicitly, or is to be construed, to constitute Array or Oncothyreon as partners in the legal sense. No Party hereto shall have any express or implied right or authority to assume or create any obligations on behalf of or in the name of any other Party or to bind any other Party to any contract, agreement or undertaking with any Third Party. This Agreement does not create a partnership for USA federal income tax purposes (as defined in Section 761 of the USA Internal Revenue Code), for any USA state or local jurisdiction, or in any country other than the USA. Therefore there is no requirement to file Form 1065, USA Partnership Return of Income, any similar USA state or local income tax return, or any similar document with tax authorities in any country other than the USA.

12.6 Subcontractors. Except as otherwise set forth in this Agreement, each Party may engage subcontractors to perform, under its direction, specific functions that are assigned to it hereunder or that it carries out in the exercise of its rights hereunder, in each case in accordance with this Section 12.6. Each Party shall be fully responsible under this Agreement for the performance hereof by its permitted subcontractors as if such Party so performed this Agreement itself.

12.7 Notices. All notices, requests and other communications hereunder shall be in writing and shall be personally delivered or sent by registered or certified mail, return receipt requested, postage prepaid, in each case to the respective address specified below, or such other address as may be specified in writing to the other Parties hereto:

Oncothyreon:	Oncothyreon Inc. 2601 Fourth Ave Suite 500 Seattle WA 98121 Attn: Robert Kirkman, MD, CEO Fax: (206) 801-2101
With a copy to:	Fenwick and West, LLP 1191 Second Avenue 10th Floor Seattle, WA 98101 Attn: Effie Toshav Fax: (206) 389-4511
Array:	Array BioPharma Inc. 3200 Walnut Street. Boulder, CO 80301 Attn: Chief Operating Officer Fax: (303) 381-6697

with a copy to:

Array BioPharma Inc.
3200 Walnut Street
Boulder, CO 80301
Attn: General Counsel
Fax: (303) 386-1290

12.8 Assignment. This Agreement shall not be assignable by either Party to any Third Party hereto without the written consent of the other Party hereto; provided that, either Party may assign this Agreement without the other Party's consent to an entity that acquires, directly or indirectly, control of such Party through a Change of Control transaction.

12.9 Modification. No amendment or modification of any provision of this Agreement shall be effective unless in writing signed by all Parties hereto. No provision of this Agreement shall be varied, contradicted or explained by any oral agreement, course of dealing or performance or any other matter not set forth in an agreement in writing and signed by all Parties.

12.10 Severability. If any provision hereof should be held invalid, illegal or unenforceable in any jurisdiction, the Parties shall negotiate in good faith a valid, legal and enforceable substitute provision that most nearly reflects the original intent of the Parties and all other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in order to carry out the intentions of the Parties hereto as nearly as may be possible. Such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of such provision in any other jurisdiction. In the event a Party seeks to avoid a provision of this Agreement by asserting that such provision is invalid, illegal or otherwise unenforceable, the other Party shall have the right to terminate this Agreement upon sixty (60) days' prior written notice to the asserting Party, unless such assertion is eliminated and the effect of such assertion cured within such sixty (60)-day period. Any termination in accordance with the foregoing sentence shall be deemed a termination pursuant to Section 11.2.1 and the Party who made such assertion shall be deemed the breaching Party for purposes of applying Section 11.4.

12.11 Publicity Review. Neither Party shall originate any written publicity, news release or other announcement or statement relating to the announcement or terms of this Agreement (collectively, a "**Written Disclosure**"), without the prompt prior review and written approval of the other Party, which approval shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, either Party may make any public Written Disclosure it believes in good faith based upon the advice of counsel is required by applicable law, rule or regulation or any listing or trading agreement concerning its or its Affiliates' publicly traded securities; provided, however, that such Written Disclosure shall minimize to the extent possible the financial information disclosed, and that prior to making such Written Disclosure, the disclosing Party shall provide to the other Party a copy of the materials proposed to be disclosed and

provide the receiving Party with an opportunity to promptly review the Written Disclosure. Notwithstanding the foregoing, the Parties shall agree upon a press release to announce the execution of this Agreement, together with a corresponding Question & Answer outline for use in responding to inquiries about the Agreement substantially in the form attached as Exhibit K; thereafter, Oncothyreon and Array may each disclose to Third Parties the information contained in such press release and Question & Answer outline without the need for further approval by the other.

12.12 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, and all of which together, shall constitute one and the same instrument.

12.13 Headings. Headings used herein are for convenience only and shall not in any way affect the construction of or be taken into consideration in interpreting this Agreement.

12.14 Export Laws. Notwithstanding anything to the contrary contained herein, all obligations of Array and Oncothyreon are subject to prior compliance with United States and foreign export regulations and such other United States and foreign laws and regulations as may be applicable, and to obtaining all necessary approvals required by the applicable agencies of the governments of the United States and foreign jurisdictions. Array and Oncothyreon shall cooperate with each other and shall provide assistance to the other as reasonably necessary to obtain any required approvals.

12.15 Entire Agreement. This Agreement together with the Exhibits hereto, constitute the entire agreement, both written or oral, with respect to the subject matter hereof, and supersede all prior or contemporaneous understandings or agreements, whether written or oral, between Array and Oncothyreon with respect to such subject matter, including the Original Agreement and that certain Confidentiality Agreement executed by the Parties effective on January 25, 2013, it being understood that all information exchanged between the Parties under such Confidentiality Agreement and the Original Agreement shall be deemed Confidential Information of the disclosing Party under Article 9 hereof.

[Remainder of this page intentionally blank. Signature page follows.]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed and delivered in duplicate originals as of the date first above written.

ARRAY BIOPHARMA INC.	ONCOTHYREON INC.
By: /s/ David L. Snitman	By: /s/ Robert L. Kirkman
Name: David L. Snitman	Name: Robert L. Kirkman
Title: Chief Operating Officer	Title: President and CEO

[Signature Page for License Agreement]

Exhibit 31.1

CERTIFICATIONS

I, Clay B. Siegall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seattle Genetics, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: April 26, 2018

/s/ Clay B. Siegall
Clay B. Siegall
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Todd E. Simpson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seattle Genetics, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: April 26, 2018

/s/ Todd E. Simpson
Todd E. Simpson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

SEATTLE GENETICS, INC.
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Seattle Genetics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clay B. Siegall, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Clay B. Siegall
Clay B. Siegall
Chief Executive Officer
(Principal Executive Officer)

April 26, 2018

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Seattle Genetics, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

SEATTLE GENETICS, INC.
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Seattle Genetics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd E. Simpson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Todd E. Simpson
Todd E. Simpson
Chief Financial Officer
(Principal Financial and Accounting Officer)

April 26, 2018

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Seattle Genetics, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.