

---

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

---

**FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

---

**SUTRO BIOPHARMA, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

2836  
(Primary Standard Industrial  
Classification Code Number)

47-0926186  
(I.R.S. Employer  
Identification Number)

310 Utah Avenue, Suite 150  
South San Francisco, CA 94080  
(650) 392-8412

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

---

William J. Newell  
Chief Executive Officer  
Sutro Biopharma, Inc.  
310 Utah Avenue, Suite 150  
South San Francisco, CA 94080  
(650) 392-8412

(Name, address, including zip code, and telephone number, including area code, of agent for service)

---

*Copies to:*

Effie Toshav, Esq.  
Robert A. Freedman, Esq.  
Amanda L. Rose, Esq.  
Fenwick & West LLP  
555 California Street  
San Francisco, CA 94104  
(415) 875-2300

David Peinsipp  
Charles S. Kim, Esq.  
Andrew S. Williamson, Esq.  
Kristin VanderPas, Esq.  
Cooley LLP  
101 California Street, 5th Floor  
San Francisco, CA 94111  
(415) 693-2000

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

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

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 to Section 7(a)(2)(B) of the Securities Act.

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price<sup>(1)(2)</sup></b>	<b>Amount of Registration Fee</b>
Common Stock, par value \$0.001 per share	\$75,000,000	\$9,338

- (1) The proposed maximum aggregate offering price includes the offering price of additional shares that the underwriters have the option to purchase.  
(2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

[Table of Contents](#)

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

August 29, 2018

**Shares**



**Common Stock**

This is an initial public offering of shares of common stock by Sutro Biopharma, Inc. We are offering \_\_\_\_\_ shares of our common stock. The initial public offering price is expected to be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share.

Prior to this offering, there has been no market for our common stock. We have applied to list our common stock on the Nasdaq Global Market under the symbol "STRO."

We are an "emerging growth company" as that term is used in the Jumpstart Our Business Startups Act of 2012 and, as such, we have elected to comply with certain reduced public company reporting requirements for this prospectus and future filings.

	<i>Per share</i>	<i>Total</i>
<b>Initial public offering price</b>	\$ _____	\$ _____
<b>Underwriting discounts and commissions(1)</b>	\$ _____	\$ _____
<b>Proceeds to Sutro, before expenses</b>	\$ _____	\$ _____

(1) See "Underwriting" for a description of the compensation payable to the underwriters.

We have granted the underwriters an option for a period of 30 days to purchase up to \_\_\_\_\_ additional shares of common stock.

Investing in our common stock involves a high degree of risk. See "[Risk Factors](#)" beginning on page 13.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA, or Merck, a holder of approximately 12.5% of our outstanding common stock, has agreed to purchase from us, concurrently with this offering in a private placement, up to \$10.0 million of shares of our common stock at a price per share equal to the initial public offering price, subject to a 17.5% ownership cap after giving effect to the concurrent private placement and this offering. The sale of shares in the concurrent private placement will not be registered under the Securities Act of 1933, as amended. The closing of this offering is not conditioned upon the closing of the concurrent private placement. The shares of common stock purchased in the concurrent private placement will not be subject to any underwriting discounts or commissions.

The underwriters expect to deliver shares of common stock to purchasers on \_\_\_\_\_, 2018.

*Joint Book-running Managers*

**Cowen**

**Piper Jaffray**

*Co-managers*

**JMP Securities**

**Wedbush PacGrow**

, 2018

TABLE OF CONTENTS

	Page
<a href="#">Prospectus Summary</a>	1
<a href="#">The Offering</a>	7
<a href="#">Risk Factors</a>	13
<a href="#">Special Note Regarding Forward-Looking Statements</a>	68
<a href="#">Market and Industry Data</a>	69
<a href="#">Use of Proceeds</a>	70
<a href="#">Dividend Policy</a>	72
<a href="#">Capitalization</a>	73
<a href="#">Dilution</a>	76
<a href="#">Selected Financial Data</a>	79
<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	81
<a href="#">Business</a>	100
<a href="#">Management</a>	141
<a href="#">Executive Compensation</a>	150
<a href="#">Certain Relationships and Related Party Transactions</a>	161
<a href="#">Principal Stockholders</a>	165
<a href="#">Description of Capital Stock</a>	169
<a href="#">Shares Eligible for Future Sale</a>	175
<a href="#">Material U.S. Federal Income Tax Consequences to Non-U.S. Holders</a>	178
<a href="#">Underwriting</a>	183
<a href="#">Legal Matters</a>	191
<a href="#">Experts</a>	191
<a href="#">Additional Information</a>	192
<a href="#">Index to Financial Statements</a>	F-1

---

We have not, and the underwriters have not, authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or in any applicable free writing prospectus is current only as of its date, regardless of its time of delivery or any sale of shares of our common stock.

**Through and including \_\_\_\_\_, 2018 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This delivery is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.**

Persons who come into possession of this prospectus and any applicable free writing prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus and any such free writing prospectus applicable to that jurisdiction.

## PROSPECTUS SUMMARY

*This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our financial statements and the related notes thereto and the information set forth under the sections entitled "Risk Factors," "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case included in this prospectus. Some of the statements in this prospectus constitute forward-looking statements that involve risks and uncertainties. See the section entitled "Special Note Regarding Forward-Looking Statements." Unless the context otherwise requires, we use the terms "Sutro," "company," "we," "us" and "our" in this prospectus to refer to Sutro Biopharma, Inc.*

### Overview

We are a clinical stage drug discovery, development and manufacturing company focused on leveraging our proprietary integrated cell-free protein synthesis platform, XpressCF, to create a broad variety of optimally designed, next-generation protein therapeutics for cancer and autoimmune disorders. We aim to design therapeutics using the most potent modalities, including cytokine-based immunoncology, or I/O, therapeutics, antibody-drug conjugates, or ADCs, and bispecific antibodies that are directed primarily against clinically validated targets where the current standard of care is suboptimal. We believe our platform allows us to accelerate the discovery and development of potential first-in-class and best-in-class molecules by enabling the rapid and systematic evaluation of protein structure-activity relationships to create optimized homogeneous product candidates. Our mission is to transform the lives of patients by using our XpressCF Platform to create medicines with improved therapeutic profiles for areas of unmet need.

Our two most advanced product candidates are wholly owned: STRO-001, an ADC directed against CD74, for patients with multiple myeloma and non-Hodgkin lymphoma, or NHL, and STRO-002, an ADC directed against folate receptor-alpha, or FolR $\alpha$ , for patients with ovarian and endometrial cancers. STRO-001 is currently enrolling patients in a Phase 1 trial, with initial safety data expected in mid-2019. We plan to submit an investigational new drug, or IND, application for STRO-002 to the U.S. Food and Drug Administration, or FDA, in the fourth quarter of 2018.

### Our Product Candidates

Our first internally developed product candidate is STRO-001, which we believe has the potential to be a first-in-class and best-in-class ADC directed against CD74, an antigen that is highly expressed in many B cell malignancies. In multiple preclinical models, STRO-001 has demonstrated potent anti-tumor activity. In addition, the properties of STRO-001 suggest a low likelihood of off-target toxicity and potential for an improved therapeutic index. STRO-001 is currently enrolling patients in a Phase 1 trial for multiple myeloma and NHL and we expect initial safety data in mid-2019.

We are also internally developing STRO-002, an ADC directed against FolR $\alpha$ , initially targeted for the treatment of ovarian and endometrial cancers. Our experiments show that FolR $\alpha$  expression can be detected in 90% or more of ovarian and endometrial cancers. In preclinical models, STRO-002 has demonstrated the potential for enhanced and selective activity against cells expressing FolR $\alpha$ , superior inhibition of tumor growth and greater linker stability, in comparison to experiments we conducted with a benchmark FolR $\alpha$ -targeting molecule. We expect to submit an IND for STRO-002 in the fourth quarter of 2018.

Although we believe our product candidates have the potential to be first-in-class and/or best-in-class and to provide potent anti-tumor activity with reduced off-target toxicity, we will need to complete additional studies to determine the safety and efficacy of our product candidates. The results of these future studies may be different than the results of our earlier studies. We have not received regulatory approval for any of our product candidates, and in order to obtain regulatory approval and commercialize our product candidates, the FDA or foreign regulatory agencies will need to determine that our product candidates are safe and effective. We may not obtain regulatory approval on the timeline we currently expect, or at all, and competing therapies and products may ultimately reach the market faster or have more favorable safety and efficacy profiles than our products candidates.

The benefits of our XpressCF Platform have resulted in collaborations with leaders in the field of oncology, including Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA, or Merck, Celgene and Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name "EMD Serono"). We have leveraged these strategic partnerships to extend our own capabilities and broaden the scope of our XpressCF Platform. To date, all of our collaborations have provided us with approximately \$330.0 million in payments, which includes \$43.7 million in investments in our stock. Our collaborations include:

- **Merck Programs.** We have granted Merck the right to jointly develop up to three research programs directed to cytokine derivatives for cancer and autoimmune disorders, including rights to certain prior cytokine-based research efforts.
- **Celgene Programs.** We have granted Celgene the right to jointly develop up to four anti-cancer bispecific antibodies and/or ADCs directed primarily to immuno-oncology targets. The lead candidate generated for this collaboration is a novel ADC therapeutic directed against the target BCMA for which an IND submission is expected in early 2019.
- **EMD Serono Programs.** We have granted EMD Serono the right to designate up to six cancer targets against which we will discover, develop and optimize up to three mono, bispecific or multi-specific ADC product candidates per target. EMD Serono has selected all six possible target antigens under the strategic research and development partnership. The most advanced candidate in this collaboration is a bispecific ADC, which is currently in preclinical development.

We intend to selectively enter into additional collaborations with partners who are seeking efficient and effective drug discovery, preclinical development and manufacturing capabilities for the creation of novel therapeutics.

Beyond these wholly owned programs and collaborations, we are developing a broader pipeline of next-generation protein therapeutics using our XpressCF Platform. Our protein engineering and chemistry efforts are focused on maximizing therapeutic indices, and our technology allows us to rapidly test our therapeutic hypothesis in significantly more product candidates than conventional protein synthesis allows in order to identify the best molecule to advance to the clinic. Our drug discovery teams are exploring novel immuno-oncology therapies, including cytokine-based therapies. We are also actively pursuing the discovery and development of other novel ADC and bispecifics and currently have four ADC and two bispecific T cell-engager discovery programs.

#### **Our Proprietary XpressCF Platform**

Our XpressCF Platform is the first and only current Good Manufacturing Practices, or cGMP, compliant scalable cell-free protein synthesis technology that has resulted in products in clinical development. Our XpressCF Platform is fundamentally different from the conventional cell-based

protein synthesis approach in that we separate the production of the cell mass from the production of the protein. We believe key advantages of our cell-free protein synthesis platform over conventional biologic drug discovery and development include:

- *Ability to Rapidly Produce and Evaluate a Wide Variety of Protein Structures In-house.* By decoupling the production of the cell-free extract from the production of the protein, we are able to stockpile large quantities of cell-free extract from which we are able to manufacture a wide variety of proteins without the need to generate individual cell lines, including cytokine-based immuno-oncology therapeutics, ADCs and bispecific antibodies.
- *Ability to Incorporate Non-Natural Amino Acids.* Our technology allows for efficient incorporation of a non-natural amino acid in any location in an antibody or protein with high precision and fidelity, which we believe allows for the design of optimized protein conjugates.
- *Faster Cycle Time.* Our ability to produce thousands of protein variants in parallel overnight allows us to rapidly express, test and characterize many variants early in discovery to elucidate structure-activity relationships and identify opportunities for superior therapeutic profiles, as well as new intellectual property. We are therefore able to efficiently optimize many properties with high specificity in parallel.
- *Efficient Drug Discovery and Early Pharmacology and Safety Assessment.* Our cell-free technology creates the opportunity for accelerated pharmacology and safety assessments during the design and discovery phase of product development. This approach allows us to generate optimized proteins early in our discovery process, which can be transitioned seamlessly to clinical scale production using the same cell-free process.
- *Rapid and Predictable Scalability.* Our cell-free extract does not need to be modified in any manner as we scale from research to preclinical to clinical to commercial production. This enables us to move more rapidly to the clinic by eliminating master cell banking activities and significantly de-risks scale-up to manufacturing.

We use our XpressCF Platform to discover and develop cancer therapeutics by empirically determining the optimum structure-activity relationships for cytokine-based immuno-oncology therapeutics, ADCs and bispecific antibodies and transitioning those products to cGMP compliant manufacturing. The following chart illustrates the applicability of these attributes across the range of modalities we are developing.

**XpressCF Attributes for Various Therapeutic Modalities**

XpressCF Attribute	ADCs	Bispecific I/O, Bispecific ADCs and Bispecific T cell-engagers	Cytokine-based therapeutics
<b>Homogeneous Design</b>			
Stable, site-specific attachment of chemical functionality	✓	✓ (if needed)	✓
<b>Experimentally Defined Structure-Activity Relationships</b>			
Rapid, direct comparison of a wide variety of protein variants	✓	✓	✓
<b>Rapid and Efficient Transition from Discovery to the Clinic</b>			
Single-source scalability from discovery to clinical / commercial	✓	✓	✓

Despite recent advancements within the field of oncology, specifically around cytokine-based immuno-oncology therapeutics, ADCs and bispecific antibodies, limitations still exist. The response is

often not durable and many patients relapse or become refractory to treatment. Also, safety and tolerability concerns often limit the use of higher, potentially more efficacious doses. We believe our XpressCF Platform will provide enhanced therapeutic approaches for treating cancer to address these unmet needs.

We also intend to selectively expand the scope of our XpressCF Platform into other therapeutic areas. Due to the versatility of our platform, we can explore additional indications outside of oncology, such as autoimmune and metabolic diseases. We intend to promote further investment in and development of our XpressCF Platform to expand our pipeline of product candidates.

#### **Our Strategy**

Our goal is to use our proprietary XpressCF Platform to create cytokine-based immuno-oncology therapeutics, ADCs and bispecific antibodies primarily against clinically validated targets. Key elements of our strategy are to:

- advance STRO-001 and STRO-002 through clinical development;
- develop a diverse pipeline of novel product candidates with optimal therapeutic profiles;
- strategically pursue additional collaborations to broaden the reach of our XpressCF Platform;
- maintain worldwide rights to our core product candidates; and
- selectively expand the scope of our XpressCF Platform into other therapeutic areas.

#### **Risks Affecting Us**

Our business is subject to a number of risks and uncertainties, including those highlighted in the section entitled “Risk Factors” immediately following this prospectus summary. These risks include, among others, the following:

- We have a limited operating history, a history of significant losses and may never achieve or maintain profitability.
- Even if we complete this offering and the concurrent private placement, we will need substantial additional funds to advance development of our product candidates and failure to obtain timely funding, may force us to delay, limit or terminate our product development programs, commercialization efforts or other operations.
- Our product candidates are in early stages of development and may fail in development or suffer delays that materially and adversely affect their commercial viability.
- Our business is dependent on the success of our product candidates based on our cell-free protein synthesis platform, XpressCF, and, in particular, our lead product candidates, STRO-001 and STRO-002. Existing and future preclinical studies and clinical trials of our product candidates may not be successful and if we are unable to commercialize our product candidates or experience significant delays in doing so, our business will be materially harmed.
- If we do not achieve our projected development goals in the time frames we announce and expect, the commercialization of our products may be delayed and, as a result, our stock price may decline.
- If our collaborations with third parties for development and commercialization are not successful, we may not be able to capitalize on the market potential of our XpressCF Platform and resulting product candidates.
- If we are not able to obtain and enforce patent protection for our technologies or product candidates, development and commercialization of our product candidates may be adversely affected.



- We or our collaborators may be unable to obtain, or may be delayed in obtaining, U.S. or foreign regulatory approval and, as a result, unable to commercialize our product candidates.

#### **Concurrent Private Placement**

Merck has agreed to purchase from us, concurrently with this offering in a private placement, up to \$10.0 million of shares of our common stock at a price per share equal to the initial public offering price, or up to approximately        shares based on an assumed initial public offering price of \$        per share, which is the midpoint of the estimated offering price range set forth on the cover of this prospectus, subject to a 17.5% ownership cap after giving effect to the concurrent private placement and this offering. The sale of these shares to Merck will not be registered in this offering.

#### **Corporate Information**

We were incorporated under the laws of the State of Delaware in April 2003 under the name Fundamental Applied Biology, Inc. We subsequently changed our name to Sutro Biopharma, Inc. Our principal executive offices are located at 310 Utah Avenue, Suite 150, South San Francisco, California 94080, and our telephone number is (650) 392-8412. Our website address is [www.sutro.bio.com](http://www.sutro.bio.com). The information contained on, or that can be accessed through, our website is not part of, and is not incorporated by reference into, this prospectus. Investors should not rely on any such information in deciding whether to purchase our common stock.

The marks “Sutro Biopharma,” “XpressCF” and “XpressCF+” are our registered trademarks. The Sutro logo, XtractCF and all product names are our common law trademarks. All other service marks, trademarks and trade names appearing in this prospectus are the property of their respective owners. Solely for convenience, the trademarks and tradenames referred to in this prospectus appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the right of the applicable licensor to these trademarks and tradenames.

#### **Implications of Being an Emerging Growth Company**

As a company with less than \$1.07 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act. An emerging growth company may take advantage of reduced reporting requirements that are otherwise applicable to public companies. These provisions include, but are not limited to:

- being permitted to present only two years of audited financial statements and only two years of related Management’s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus;
- not being required to comply with the auditor attestation requirements on the effectiveness of our internal controls over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (auditor discussion and analysis);
- reduced disclosure obligations regarding executive compensation arrangements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We may use these provisions until the last day of our fiscal year following the fifth anniversary of the completion of this offering. However, if certain events occur prior to the end of such five-year

---

[Table of Contents](#)

period, including if we become a “large accelerated filer,” our annual gross revenues exceed \$1.07 billion or we issue more than \$1.0 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company prior to the end of such five-year period.

We have elected to take advantage of certain of the reduced disclosure obligations in the registration statement of which this prospectus is a part and may elect to take advantage of other reduced reporting requirements in future filings. As a result, the information that we provide to our stockholders may be different than you might receive from other public reporting companies in which you hold equity interests.

The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards, until those standards apply to private companies. We have elected to take advantage of the benefits of this extended transition period and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Until the date that we are no longer an emerging growth company or affirmatively and irrevocably opt out of the exemption provided by Section 7(a)(2)(B) of the Securities Act of 1933, as amended, upon issuance of a new or revised accounting standard that applies to our financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

**THE OFFERING**

Common stock offered	shares
Option to purchase additional shares	We have granted the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to an additional shares from us.
Concurrent private placement	Merck has agreed to purchase from us, concurrently with this offering in a private placement, up to \$10.0 million of shares of our common stock at a price, or up to approximately shares based on an assumed initial public offering price of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover of this prospectus, per share equal to the initial public offering price, subject to a 17.5% ownership cap after giving effect to the concurrent private placement and this offering. The sale of shares in the concurrent private placement will not be registered in this offering. The closing of this offering is not conditioned upon the closing of the concurrent private placement. The shares of common stock purchased in the concurrent private placement will not be subject to any underwriting discounts or commissions. We refer to the private placement of these shares of common stock as the concurrent private placement.
Common stock to be outstanding immediately after this offering and the concurrent private placement	shares (or shares if the underwriters exercise their option to purchase additional shares in full).
Use of proceeds	We estimate that the net proceeds from this offering will be approximately \$ million (or approximately \$ million if the underwriters exercise their option to purchase additional shares in full), based upon the assumed initial public offering price of \$ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses. We expect that the net proceeds from the concurrent private placement will be up to approximately \$10.0 million.

	We intend to use the net proceeds that we receive in this offering and the concurrent private placement to fund the further development of STRO-001 and STRO-002, the further development of our technology platform, including manufacturing, to broaden our pipeline of product candidates and for working capital and general corporate purposes. See the section entitled “Use of Proceeds.”
Risk factors	You should read the section entitled “Risk Factors” in this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Proposed Nasdaq Global Market symbol	“STRO”
<p>The number of shares of our common stock to be outstanding after this offering and the concurrent private placement is based on (i) 17,407,675 shares of our common stock outstanding as of June 30, 2018, (ii) 581,575,366 shares of common stock that we expect to issue immediately prior to the completion of this offering upon the automatic conversion of 298,590,921 shares of our outstanding redeemable convertible preferred stock as of June 30, 2018 and 194,465,218 shares of our outstanding redeemable convertible preferred stock issued in July 2018 and (iii) shares of common stock that we expect to issue, based upon an assumed initial public offering price of \$ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, upon the net exercise of warrants that would otherwise expire upon completion of this offering, and excludes:</p> <ul style="list-style-type: none"><li>▪ 29,804,074 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2018 under our 2004 Stock Plan, with a weighted-average exercise price of \$0.29 per share;</li><li>▪ 2,606,483 shares of common stock issuable upon the exercise of warrants to purchase 2,097,260 shares of redeemable convertible preferred stock outstanding as of June 30, 2018 (which in connection with the July 2018 closing of the Series E redeemable convertible preferred stock financing were adjusted such that they represent warrants to purchase a total of 2,370,799 shares of redeemable convertible preferred stock), with a weighted-average exercise price of \$0.37 per share, which will automatically convert to warrants to purchase shares of our common stock upon the completion of this offering; and</li><li>▪ shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of (i) 61,410,868 shares of common stock reserved for future issuance under our 2004 Stock Plan as of June 30, 2018, (ii) shares of common stock reserved for future issuance under our 2018 Equity Incentive Plan, which will become effective on the date immediately prior to the date of the effectiveness of the registration statement of which this prospectus forms a part and (iii) shares of common stock reserved for future issuance under our 2018 Employee Stock Purchase Plan, which will become effective on the date of the effectiveness of the registration statement of which this prospectus forms a part. Upon completion of this offering, any remaining shares available for issuance under our 2004 Stock Plan will be added to the shares reserved under our 2018 Equity Incentive Plan and we will cease granting awards under our 2004 Stock Plan. Our 2018 Equity Incentive Plan and 2018 Employee Stock Purchase Plan also provide for automatic annual increases in the</li></ul>	

number of shares reserved under the plans each year, as more fully described in “Executive Compensation—Equity Compensation Plans and Other Benefit Plans.”

Except as otherwise indicated, all information in this prospectus assumes or gives effect to:

- the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into an aggregate of 581,575,366 shares of common stock immediately prior to the completion of this offering;
- the net exercise of outstanding warrants to purchase 1,791,784 shares of redeemable convertible preferred stock and 40,000 shares of common stock immediately prior to the completion of this offering, which will result in the issuance of \_\_\_\_\_ shares of common stock, based upon an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus;
- the automatic conversion of outstanding warrants to purchase 2,370,799 shares of redeemable convertible preferred stock into warrants to purchase 2,606,483 shares of common stock upon the completion of this offering;
- the issuance and sale by us in the concurrent private placement of up to approximately \_\_\_\_\_ shares of common stock to Merck, based on an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus;
- a 1-for-1.1940912491 forward stock split of Series E redeemable convertible preferred stock, which became effective on July 26, 2018;
- a \_\_\_\_\_-for-\_\_\_\_\_ reverse stock split, which will become effective prior to the completion of this offering;
- the effectiveness of our restated certificate of incorporation and restated bylaws in connection with the completion of this offering;
- no exercise of outstanding options or warrants after June 30, 2018, other than as described in the second bullet above; and
- no exercise of the underwriters’ option to purchase additional shares of our common stock.

### Summary Financial Data

The following tables set forth our summary statements of operations and balance sheet data. The summary statements of operations data presented below for the years ended December 31, 2016 and 2017 are derived from our audited financial statements included elsewhere in this prospectus. We derived our summary statements of operations data for the six months ended June 30, 2017 and 2018 and our summary balance sheet data as of June 30, 2018 from our unaudited interim financial statements included elsewhere in this prospectus. Our unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles on the same basis as our audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal, recurring adjustments, that are necessary for the fair statement of our financial position as of June 30, 2018 and our results of operations for the six months ended June 30, 2017 and 2018. The following summary financial data should be read in conjunction with "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in any future period and our interim results for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018, or any other period. The summary financial data in this section are not intended to replace the financial statements and are qualified in their entirety by the financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,		Six Months Ended June 30,	
	2016	2017	2017	2018
	(unaudited)			
	(in thousands, except share and per share data)			
<b>Statements of Operations Data:</b>				
Revenue:				
Collaboration revenue	\$ 59,731	\$ 51,741	\$ 30,202	\$ 7,031
Other revenue – related parties	—	—	—	4,466
<b>Total revenue</b>	<b>59,731</b>	<b>51,741</b>	<b>30,202</b>	<b>11,497</b>
Operating expenses:				
Research and development	43,550	54,639	25,830	26,833
General and administrative	14,817	16,374	7,411	8,455
<b>Total operating expenses</b>	<b>58,367</b>	<b>71,013</b>	<b>33,241</b>	<b>35,288</b>
Income (loss) from operations	1,364	(19,272)	(3,039)	(23,791)
Interest income	251	273	130	80
Interest expense	—	(612)	—	(784)
Other income (expense), net	87	(77)	(17)	908
<b>Net income (loss)</b>	<b>\$ 1,702</b>	<b>\$ (19,688)</b>	<b>\$ (2,926)</b>	<b>\$ (23,587)</b>
<b>Net income (loss) per share attributable to common stockholders, basic and diluted(1)</b>	<b>\$ —</b>	<b>\$ (1.21)</b>	<b>\$ (0.18)</b>	<b>\$ (1.37)</b>
<b>Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic and diluted(1)</b>	<b>14,804,949</b>	<b>16,265,874</b>	<b>16,015,593</b>	<b>17,162,459</b>
<b>Pro forma net loss per share, basic and diluted (unaudited) (1)</b>		<b>\$ —</b>		<b>\$ —</b>
<b>Weighted-average shares used in computing pro forma net loss per share, basic and diluted (unaudited)(1)</b>		<b>—</b>		<b>—</b>
<p>(1) See Notes 2 and 13 to our audited financial statements and Notes 2 and 10 to our unaudited interim financial statements included elsewhere in this prospectus for an explanation of the calculations of our basic and diluted net income (loss) per share attributable to common stockholders, basic and diluted pro forma net loss per share, and the weighted-average number of shares used in the computation of the per share amounts.</p>				
	<b>As of June 30, 2018</b>			
	<b>Actual</b>	<b>Pro Forma(1)</b>	<b>Pro Forma As Adjusted(2)(3)</b>	
		(unaudited)		
		(in thousands)		
<b>Balance Sheet Data:</b>				
Cash and cash equivalents	\$ 25,420	\$	\$	
Working capital	10,997			
Total assets	45,181			
Debt	14,802			
Redeemable convertible preferred stock warrant liability	801			
Redeemable convertible preferred stock	135,720			
Accumulated deficit	(138,598)			
<b>Total stockholders' equity (deficit)</b>	<b>(132,019)</b>			

- (1) The pro forma balance sheet data gives effect to (i) the automatic conversion of 298,590,921 outstanding shares of our redeemable convertible preferred stock as of June 30, 2018 and 194,465,218 shares of our redeemable convertible preferred stock issued in July 2018 into an aggregate of 581,575,366 shares of common stock immediately prior to the completion of this offering, (ii) the issuance of \_\_\_\_\_ shares of common stock that we expect to issue, based upon an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, upon the net exercise of 1,791,784 redeemable convertible preferred stock warrants and 40,000 common stock warrants that would otherwise expire upon completion of this offering and the related reclassification of redeemable convertible preferred stock warrant liability to total stockholders' equity (deficit), (iii) the conversion of redeemable convertible preferred stock warrants into common stock warrants and the related reclassification of the redeemable convertible preferred stock warrant liability to total stockholders' equity (deficit) and (iv) the repayment of principal and interest on a \$0.2 million outstanding note issued to an executive officer.
- (2) The pro forma as adjusted balance sheet data gives effect to (i) the pro forma adjustments described in footnote (1) above, (ii) the receipt of \$ \_\_\_\_\_ million in net proceeds from the sale of \_\_\_\_\_ shares of common stock in this offering, based upon an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses and (iii) the issuance and sale by us in the concurrent private placement of up to approximately \_\_\_\_\_ shares of common stock to Merck based on the assumed initial public offering price.
- (3) Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) each of our pro forma as adjusted cash and cash equivalents, working capital, total assets and total stockholders' equity (deficit) by approximately \$ \_\_\_\_\_ million, assuming that the number of shares offered, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions. Similarly, each increase (decrease) of 1,000,000 shares in the number of shares of common stock offered would increase (decrease) each of our pro forma as adjusted cash and cash equivalents, working capital, total assets and total stockholders' equity (deficit) by approximately \$ \_\_\_\_\_ million, assuming the assumed initial public offering price per share as set forth on the cover of this prospectus remains the same and after deducting the estimated underwriting discounts and commissions. The pro forma as adjusted information is illustrative only, and we will adjust this information based on the actual initial public offering price and other terms of this offering and the concurrent private placement determined at pricing.



## RISK FACTORS

*Investing in our common stock involves a high degree of risk. Before making your decision to invest in shares of our common stock, you should carefully consider the risks described below, together with the other information contained in this prospectus, including our financial statements and the related notes appearing at the end of this prospectus. We cannot assure you that any of the events discussed below will not occur. These events could have a material and adverse impact on our business, financial condition, results of operations and prospects. If that were to happen, the trading price of our common stock could decline, and you could lose all or part of your investment.*

### Risks Related to Our Business

***We are a clinical stage biopharmaceutical company with a limited operating history and no products approved for commercial sale. We have a history of significant losses, expect to continue to incur significant losses for the foreseeable future and may never achieve or maintain profitability, which could result in a decline in the market value of our common stock.***

We are a clinical stage biopharmaceutical company with a limited operating history on which to base your investment decision. Biotechnology product development is a highly speculative undertaking and involves a substantial degree of risk.

To date, we have tested our first clinical stage product candidate, STRO-001, in only a few clinical trial patients, have no products approved for commercial sale, have not generated any revenue from commercial product sales and, as of June 30, 2018, had an accumulated deficit of \$138.6 million. For the year ended December 31, 2017 and for the six months ended June 30, 2018, our net loss was \$19.7 million and \$23.6 million, respectively, and for the year ended December 31, 2016, our net income was \$1.7 million. Substantially all of our losses have resulted from expenses incurred in connection with our research and development programs and from general and administrative costs associated with our operations. Our technologies and product candidates are in early stages of development, and we are subject to the risks of failure inherent in the development of product candidates based on novel technologies. In addition, we have limited experience as a clinical stage company and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biotechnology industry. Furthermore, we do not expect to generate any revenue from commercial product sales for the foreseeable future, and we expect to continue to incur significant operating losses for the foreseeable future due to the cost of research and development, preclinical studies and clinical trials and the regulatory approval process for our product candidates. We expect our net losses to increase substantially as we progress further into clinical development of our lead programs and create additional infrastructure to support operations as a public company. However, the amount of our future losses is uncertain. Our ability to achieve profitability, if ever, will depend on, among other things, our, or our existing or future collaborators', successful development of product candidates, obtaining regulatory approvals to market and commercialize product candidates, manufacturing any approved products on commercially reasonable terms, establishing a sales and marketing organization or suitable third-party alternatives for any approved product and raising sufficient funds to finance business activities. If we, or our existing or future collaborators, are unable to develop our technologies and commercialize one or more of our product candidates or if sales revenue from any product candidate that receives approval is insufficient, we will not achieve profitability, which could have a material and adverse effect on our business, financial condition, results of operations and prospects. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

***Even if we complete this offering and the concurrent private placement, we will need substantial additional funds to advance development of our product candidates. This additional financing may not be available on acceptable terms, or at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate our product development programs, commercialization efforts or other operations.***

The development of biopharmaceutical product candidates is capital-intensive. If our product candidates enter and advance through preclinical studies and clinical trials, we will need substantial additional funds to expand our development, regulatory, manufacturing, marketing and sales capabilities. We have used substantial funds to develop our technology and product candidates and will require significant funds to conduct further research and development and preclinical testing and clinical trials of our product candidates, to seek regulatory approvals for our product candidates and to manufacture and market products, if any, which are approved for commercial sale. In addition, upon the completion of this offering, we expect to incur additional costs associated with operating as a public company.

Since our inception, we have invested a significant portion of our efforts and financial resources in research and development activities for our two product candidates STRO-001, our primary clinical program, and STRO-002, our late-stage preclinical program, and the development of our in-house manufacturing capabilities. Clinical trials for our product candidates will require substantial funds to complete. As of June 30, 2018, we had \$25.4 million in cash and cash equivalents. We expect to incur substantial expenditures in the foreseeable future as we seek to advance STRO-001 and STRO-002 and any future product candidates through clinical development, the regulatory approval process and, if approved, commercial launch activities, as well as in connection with the continued development of our manufacturing capabilities. Based on our current operating plan, we believe that our available cash and cash equivalents, together with the net proceeds from this offering and the concurrent private placement, will be sufficient to fund our operations through at least the next 12 months. However, our future capital requirements and the period for which we expect our existing resources to support our operations may vary significantly from what we expect and we may need to seek additional funds sooner than planned. Our monthly spending levels vary based on new and ongoing research and development and other corporate activities. Because the length of time and activities associated with successful research and development of our product candidates is highly uncertain, we are unable to estimate the actual funds we will require for development and any marketing and commercialization activities for approved products. The timing and amount of our operating expenditures will depend largely on:

- the timing and progress of preclinical and clinical development activities;
- the costs associated with the development of our internal manufacturing facility and processes;
- the number and scope of preclinical and clinical programs we decide to pursue;
- the progress of the development efforts of parties with whom we have entered or may in the future enter into collaborations and research and development agreements;
- the timing and amount of milestone and other payments we may receive under our collaboration agreements;
- our ability to maintain our current licenses and research and development programs and to establish new collaboration arrangements;
- the costs involved in prosecuting and enforcing patent and other intellectual property claims;
- the costs of manufacturing our product candidates and those of our collaborators using our proprietary XpressCF Platform;
- the cost and timing of regulatory approvals;
- the cost of commercialization activities if our product candidates or any future product candidates are approved for sale, including marketing, sales and distribution costs; and

---

## Table of Contents

- our efforts to enhance operational systems and hire additional personnel, including personnel to support development of our product candidates and satisfy our obligations as a public company.

If we are unable to obtain funding on a timely basis or on acceptable terms, we may have to delay, reduce or terminate our research and development programs and preclinical studies or clinical trials, limit strategic opportunities or undergo reductions in our workforce or other corporate restructuring activities. We also could be required to seek funds through arrangements with collaborators or others that may require us to relinquish rights to some of our technologies or product candidates that we would otherwise pursue on our own. We do not expect to realize revenue from sales of commercial products or royalties from licensed products in the foreseeable future, if at all, and, in no event, before our product candidates are clinically tested, approved for commercialization and successfully marketed. To date, we have primarily financed our operations through payments received under our collaboration agreements, the sale of equity securities and debt financing. We will be required to seek additional funding in the future and currently intend to do so through additional collaborations and/or licensing agreements, public or private equity offerings or debt financings, credit or loan facilities, or a combination of one or more of these funding sources. Our ability to raise additional funds will depend on financial, economic and other factors, many of which are beyond our control. Additional funds may not be available to us on acceptable terms or at all. Subject to limited exceptions, the Loan and Security Agreement prohibits us from incurring indebtedness without the prior written consent of Oxford Finance LLC, or Oxford, and Silicon Valley Bank, or SVB. If we raise additional funds by issuing equity securities, our stockholders will suffer dilution and the terms of any financing may adversely affect the rights of our stockholders. If we raise additional funds through licensing or collaboration arrangements with third parties, we may have to relinquish valuable rights to our product candidates, or grant licenses on terms that are not favorable to us. In addition, as a condition to providing additional funds to us, future investors may demand, and may be granted, rights superior to those of existing stockholders. Our current debt financing involves, and future debt financings, if available, are likely to involve, restrictive covenants limiting our flexibility in conducting future business activities, and, in the event of insolvency, debt holders would be repaid before holders of our equity securities received any distribution of our corporate assets. Failure to obtain capital when needed on acceptable terms may force us to delay, limit or terminate our product development and commercialization of our current or future product candidates, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Our product candidates are in early stages of development and may fail in development or suffer delays that materially and adversely affect their commercial viability. If we or our collaborators are unable to complete development of or commercialize our product candidates or experience significant delays in doing so, our business will be materially harmed.***

We have no products on the market and all of our product candidates for cancer therapy are in early stages of development. In particular, our most advanced product candidate, STRO-001, is in the initial stages of dose escalation in clinical trial patients. Additionally, we have programs, including those listed in the Discovery and Preclinical Programs chart included elsewhere in this prospectus, that are in earlier stages of discovery and preclinical development and may never advance to clinical-stage development. Our ability to achieve and sustain profitability depends on obtaining regulatory approvals for and successfully commercializing our product candidates, either alone or with third parties, and we cannot guarantee you that we will ever obtain regulatory approval for any of our product candidates. We have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approvals, including approval by the U.S. Food and Drug Administration, or FDA. Before obtaining regulatory approval for the commercial distribution of our product candidates, we or an existing or future collaborator must conduct extensive preclinical tests and clinical trials to demonstrate the safety and efficacy in humans of our product candidates.

---

## Table of Contents

We may not have the financial resources to continue development of, or to modify existing or enter into new collaborations for, a product candidate if we experience any issues that delay or prevent regulatory approval of, or our ability to commercialize, product candidates, including:

- negative or inconclusive results from our clinical trials or the clinical trials of others for product candidates similar to ours, leading to a decision or requirement to conduct additional preclinical testing or clinical trials or abandon a program;
- product-related side effects experienced by patients in our clinical trials or by individuals using drugs or therapeutic biologics similar to our product candidates;
- difficulty achieving successful continued development of our internal manufacturing processes, including process development and scale-up activities to supply products for preclinical studies, clinical trials and commercial sale;
- our inability to transfer successfully our manufacturing techniques to third-party contract manufacturers;
- inability of us or any third-party contract manufacturer to scale up manufacturing of our product candidates and those of our collaborators to supply the needs of clinical trials and commercial sales, and to manufacture such products in conformity with regulatory requirements using our proprietary XpressCF Platform;
- delays in submitting investigational new drug applications, or INDs, or comparable foreign applications or delays or failures in obtaining the necessary approvals from regulators to commence a clinical trial, or a suspension or termination of a clinical trial once commenced;
- conditions imposed by the FDA or comparable foreign authorities regarding the scope or design of our clinical trials;
- delays in enrolling patients in our clinical trials;
- high drop-out rates of our clinical trial patients;
- inadequate supply or quality of product candidate components or materials or other supplies necessary for the conduct of our clinical trials;
- inability to obtain alternative sources of supply for which we have a single source for product candidate components or materials;
- greater than anticipated costs of our clinical trials;
- harmful side effects or inability of our product candidates to meet efficacy endpoints during clinical trials;
- failure to demonstrate a benefit-risk profile acceptable to the FDA or other regulatory agencies;
- unfavorable FDA or other regulatory agency inspection and review of one or more of our clinical trial sites or manufacturing facilities;
- failure of our third-party contractors or investigators to comply with regulatory requirements or otherwise meet their contractual obligations in a timely manner, or at all;
- delays and changes in regulatory requirements, policy and guidelines, including the imposition of additional regulatory oversight around clinical testing generally or with respect to our technology in particular; or
- varying interpretations of our data by the FDA and similar foreign regulatory agencies.

We or our collaborators' inability to complete development of or commercialize our product candidates or significant delays in doing so due to one or more of these factors, could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Our business is dependent on the success of our product candidates based on our proprietary XpressCF Platform and, in particular, our lead product candidates, STRO-001 and STRO-002. Existing and future preclinical studies and clinical trials of our product candidates may not be successful. If we are unable to commercialize our product candidates or experience significant delays in doing so, our business will be materially harmed.***

We have invested a significant portion of our efforts and financial resources in the development of our proprietary XpressCF Platform and our lead product candidates, STRO-001 and STRO-002. Our ability to generate commercial product revenues, which we do not expect will occur for many years, if ever, will depend heavily on the successful development and eventual commercialization of STRO-001 and STRO-002. We have not previously submitted a new drug application, or NDA, or a biologics license application, or BLA, to the FDA, or similar regulatory approval filings to comparable foreign authorities, for any product candidate, and we cannot be certain that our product candidates will be successful in clinical trials or receive regulatory approval. Further, our product candidates may not receive regulatory approval even if they are successful in clinical trials. If we do not receive regulatory approvals for our product candidates, we may not be able to continue our operations. Even if we successfully obtain regulatory approvals to market our product candidates, our revenues will be dependent, in part, upon the size of the markets in the territories for which we gain regulatory approval and have commercial rights. If the markets for patient subsets that we are targeting are not as significant as we estimate, we may not generate significant revenues from sales of such products, if approved.

We plan to seek regulatory approval to commercialize our product candidates both in the United States and in selected foreign countries. While the scope of regulatory approvals generally is similar in other countries, in order to obtain separate regulatory approvals in other countries, we must comply with numerous and varying regulatory requirements of such countries regarding safety and efficacy. Other countries also have their own regulations governing, among other things, clinical trials and commercial sales, as well as pricing and distribution of our product candidates, and we may be required to expend significant resources to obtain regulatory approval and to comply with ongoing regulations in these jurisdictions.

The success of STRO-001 and STRO-002 and our other product candidates will depend on many factors, including the following:

- successful enrollment of patients in, and the completion of, our clinical trials;
- receiving required regulatory approvals for the development and commercialization of our product candidates;
- establishing our commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and non-patent exclusivity for our product candidates and their components;
- enforcing and defending our intellectual property rights and claims;
- achieving desirable therapeutic properties for our product candidates' intended indications;
- launching commercial sales of our product candidates, if and when approved, whether alone or in collaboration with third parties;
- acceptance of our product candidates, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies; and
- maintaining an acceptable safety profile of our product candidates through clinical trials and following regulatory approval.

---

## [Table of Contents](#)

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our product candidates, which would materially harm our business.

Additionally, we have created a benchmark folate receptor-alpha, or FoIR  $\alpha$ , targeting ADC using conventional technology that results in a heterogeneous ADC mixture. We have compared STRO-002 to this benchmark molecule in multiple preclinical models. We believe the results of these tests help us understand how the therapeutic index of STRO-002 compares to competitors. However, we cannot be certain that our benchmark molecule is the same as the molecule we are attempting to recreate, and the results of the tests comparing our benchmark molecule to STRO-002 may be different than the actual results of a head-to-head test of STRO-002 against a competitor molecule. Additional preclinical and clinical testing will be needed to evaluate the therapeutic index of STRO-002 and to understand its therapeutic potential relative to other product candidates in development. While we believe our ADCs may be superior to other investigational agents in development, without head-to-head comparative data, we will not be able to make claims of superiority to other products in our promotional materials, if our product candidates are approved.

***If we do not achieve our projected development goals in the time frames we announce and expect, the commercialization of our products may be delayed and, as a result, our stock price may decline.***

From time to time, we estimate the timing of the anticipated accomplishment of various scientific, clinical, regulatory and other product development goals, which we sometimes refer to as milestones. These milestones may include the commencement or completion of scientific studies and clinical trials and the submission of regulatory filings. From time to time, we may publicly announce the expected timing of some of these milestones. All of these milestones are and will be based on numerous assumptions. The actual timing of these milestones can vary dramatically compared to our estimates, in some cases for reasons beyond our control. If we do not meet these milestones as publicly announced, or at all, the commercialization of our products may be delayed or never achieved and, as a result, our stock price may decline.

***Our approach to the discovery and development of our therapeutic treatments is based on novel technologies that are unproven and may not result in marketable products.***

We are developing a pipeline of product candidates using our proprietary XpressCF Platform. We believe that product candidates identified with our product discovery platform may offer an improved therapeutic approach by taking advantage of precision design and rapid empirical optimization, thereby reducing the dose-limiting toxic effects associated with existing products. However, the scientific research that forms the basis of our efforts to develop product candidates based on our XpressCF Platform is ongoing. Further, the scientific evidence to support the feasibility of developing therapeutic treatments based on our XpressCF Platform is both preliminary and limited.

To date, we have tested our first clinical stage product candidate, STRO-001, in only a few clinical trial patients. We may ultimately discover that our XpressCF Platform and any product candidates resulting therefrom do not possess certain properties required for therapeutic effectiveness. XpressCF product candidates may also be unable to remain stable in the human body for the period of time required for the drug to reach the target tissue or they may trigger immune responses that inhibit the ability of the product candidate to reach the target tissue or that cause adverse side effects in humans. We currently have only limited data, and no conclusive evidence, to suggest that we can introduce these necessary properties into these product candidates derived from our XpressCF Platform. We may spend substantial funds attempting to introduce these properties and may never succeed in doing so. In addition, product candidates based on our XpressCF Platform may demonstrate different chemical and pharmacological properties in patients than they do in laboratory studies. Although our

---

## [Table of Contents](#)

XpressCF Platform and certain product candidates have produced successful results in animal studies, they may not demonstrate the same chemical and pharmacological properties in humans and may interact with human biological systems in unforeseen, ineffective or harmful ways. As a result, we may never succeed in developing a marketable product, we may not become profitable and the value of our common stock will decline.

The regulatory approval process for novel product candidates such as ours can be more expensive and take longer than for other, better known or extensively studied product candidates. We are not aware of any company currently developing a therapeutic using our approach to ADC development and no regulatory authority has granted approval for such a therapeutic. We believe the FDA has limited experience with therapeutics in oncology or other disease areas developed in cell-free-based synthesis systems, which may increase the complexity, uncertainty and length of the regulatory approval process for our product candidates. For example, our XpressCF ADC product candidates contain cleavable or non-cleavable linker-warhead combinations or novel warheads that may result in unforeseen events when administered in a human. We and our existing or future collaborators may never receive approval to market and commercialize any product candidate. Even if we or an existing or future collaborator obtains regulatory approval, the approval may be for targets, disease indications or patient populations that are not as broad as we intended or desired or may require labeling that includes significant use or distribution restrictions or safety warnings. We or an existing or future collaborator may be required to perform additional or unanticipated clinical trials to obtain approval or be subject to post-marketing testing requirements to maintain regulatory approval. If the products resulting from our XpressCF Platform prove to be ineffective, unsafe or commercially unviable, our entire platform and pipeline would have little, if any, value, which would have a material and adverse effect on our business, financial condition, results of operations and prospects.

### ***Results of preclinical studies and early clinical trials may not be predictive of results of future clinical trials.***

The outcome of preclinical studies and early clinical trials may not be predictive of the success of later clinical trials, and interim results of clinical trials do not necessarily predict success in future clinical trials. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials after achieving positive results in earlier development, and we could face similar setbacks. The design of a clinical trial can determine whether its results will support approval of a product and flaws in the design of a clinical trial may not become apparent until the clinical trial is well advanced. We have limited experience in designing clinical trials and may be unable to design and execute a clinical trial to support marketing approval. In addition, preclinical and clinical data are often susceptible to varying interpretations and analyses. Many companies that believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval for the product candidates. Even if we, or future collaborators, believe that the results of clinical trials for our product candidates warrant marketing approval, the FDA or comparable foreign regulatory authorities may disagree and may not grant marketing approval of our product candidates.

In some instances, there can be significant variability in safety or efficacy results between different clinical trials of the same product candidate due to numerous factors, including changes in trial procedures set forth in protocols, differences in the size and type of the patient populations, changes in and adherence to the dosing regimen and other clinical trial protocols and the rate of dropout among clinical trial patients. If we fail to receive positive results in clinical trials of our product candidates, the development timeline and regulatory approval and commercialization prospects for our most advanced product candidates, and, correspondingly, our business and financial prospects would be negatively impacted.

***The market may not be receptive to our product candidates based on a novel therapeutic modality, and we may not generate any future revenue from the sale or licensing of product candidates.***

Even if regulatory approval is obtained for a product candidate, we may not generate or sustain revenue from sales of the product due to factors such as whether the product can be sold at a competitive cost and whether it will otherwise be accepted in the market. Historically, there have been concerns regarding the safety and efficacy of ADCs, and an ADC drug was voluntarily withdrawn from the market. These historical concerns may negatively impact the perception market participants have on ADCs, including our product candidates. Additionally, the product candidates that we are developing are based on our proprietary XpressCF Platform, which is a new technology. Market participants with significant influence over acceptance of new treatments, such as physicians and third-party payors, may not adopt an ADC product, or a product or treatment based on our novel cell-free production technologies, and we may not be able to convince the medical community and third-party payors to accept and use, or to provide favorable reimbursement for, any product candidates developed by us or our existing or future collaborators. Market acceptance of our product candidates will depend on, among other factors:

- the timing of our receipt of any marketing and commercialization approvals;
- the terms of any approvals and the countries in which approvals are obtained;
- the safety and efficacy of our product candidates;
- the prevalence and severity of any adverse side effects associated with our product candidates;
- limitations or warnings contained in any labeling approved by the FDA or other regulatory authority;
- relative convenience and ease of administration of our product candidates;
- the willingness of patients to accept any new methods of administration;
- the success of our physician education programs;
- the availability of coverage and adequate reimbursement from government and third-party payors;
- the pricing of our products, particularly as compared to alternative treatments; and
- the availability of alternative effective treatments for the disease indications our product candidates are intended to treat and the relative risks, benefits and costs of those treatments.

Because our product candidates are based on new technology, we expect that they will require extensive research and development and have substantial manufacturing and processing costs. In addition, our estimates regarding potential market size for any indication may be materially different from what we discover to exist at the time we commence commercialization, if any, for a product, which could result in significant changes in our business plan and have a material adverse effect on our business, financial condition, results of operations and prospects. Moreover, if any product candidate we commercialize fails to achieve market acceptance, it could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***We have entered, and may in the future seek to enter, into collaborations with third parties for the development and commercialization of our product candidates using our XpressCF Platform. If we fail to enter into such collaborations, or such collaborations are not successful, we may not be able to capitalize on the market potential of our XpressCF Platform and resulting product candidates.***

Since 2014, we have entered into collaborations with Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA, or Merck, Celgene Corporation, or Celgene, and Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name "EMD Serono") to



---

## Table of Contents

develop certain cancer therapeutics. In addition, we may in the future seek third-party collaborators for research, development and commercialization of other therapeutic technologies or product candidates. Biopharmaceutical companies are our prior and likely future collaborators for any marketing, distribution, development, licensing or broader collaboration arrangements. With respect to our existing collaboration agreements, and what we expect will be the case with any future collaboration agreements, we have and would expect to have limited control over the amount and timing of resources that our collaborators dedicate to the development or commercialization of our product candidates. Moreover, our ability to generate revenues from these arrangements will depend on our collaborators' abilities to successfully perform the functions assigned to them in these arrangements.

Collaborations involving our product candidates currently pose, and will continue to pose, the following risks to us:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not pursue development and commercialization of our product candidates or may elect not to continue or renew development or commercialization programs based on preclinical studies or clinical trial results, changes in the collaborators' strategic focus or available funding, or external factors such as an acquisition that diverts resources or creates competing priorities;
- 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;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our product candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;
- collaborators with marketing and distribution rights to one or more products may not commit sufficient resources to the marketing and distribution of such product or products;
- 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 intellectual property or proprietary information or expose us to litigation or potential liability;
- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- disputes may arise between the collaborators and us that result in the delay or termination of the research, development or commercialization of our product candidates or that result in costly litigation or arbitration that diverts management attention and resources; and
- collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable product candidates.

As a result of the foregoing, our current and any future collaboration agreements may not lead to development or commercialization of our product candidates in the most efficient manner or at all. Moreover, if a collaborator of ours were to be involved in a business combination, the continued pursuit and emphasis on our product development or commercialization program could be delayed, diminished or terminated. Any failure to successfully develop or commercialize our product candidates pursuant to our current or any future collaboration agreements could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***To date, no product developed on a cell-free manufacturing platform has received approval from the FDA, so the requirements for the manufacturing of products using our XpressCF Platform are uncertain.***

We have invested in our own current Good Manufacturing Practices, or cGMP, compliant manufacturing facility in San Carlos, California. In this facility, we are developing and implementing novel cell-free production technologies to supply our planned preclinical and clinical trials. However, before we may initiate a clinical trial or commercialize any of our product candidates, we must demonstrate to the FDA that the chemistry, manufacturing and controls for our product candidates meet applicable requirements, and in the European Union, or EU, a manufacturing authorization must be obtained from the appropriate EU regulatory authorities. Because no product manufactured on a cell-free manufacturing platform has yet been approved in the United States, there is no manufacturing facility that has demonstrated the ability to comply with FDA requirements, and, therefore, the timeframe for demonstrating compliance to the FDA's satisfaction is uncertain. Delays in establishing that our manufacturing process and facility comply with cGMPs or disruptions in our manufacturing processes, implementation of novel in-house technologies or scale-up activities, may delay or disrupt our development efforts.

We expect that development of our own manufacturing facility will provide us with enhanced control of material supply for preclinical studies, clinical trials and the commercial market, enable the more rapid implementation of process changes and allow for better long-term margins. However, we have limited experience as a company in establishing and operating a manufacturing facility and there exist only a small number of contract manufacturing organizations, or CMOs, with the experience necessary to manufacture our product candidates. We may have difficulty hiring experts for internal manufacturing or finding and maintaining relationships with external CMOs and, accordingly, our production capacity could be limited.

***Our existing collaborations with Merck, Celgene and EMD Serono are important to our business. If our collaborators cease development efforts under our existing or future collaboration agreements, or if any of those agreements are terminated, these collaborations may fail to lead to commercial products and we may never receive milestone payments or future royalties under these agreements.***

We have entered into collaborations with other biotechnology companies to develop several of our product candidates, and such collaborations currently represent a significant portion of our product pipeline. Substantially all of our revenue to date has been derived from our existing collaboration agreements with Merck, Celgene and EMD Serono, and a significant portion of our future revenue and cash resources is expected to be derived from these agreements or other similar agreements into which we may enter in the future. Revenue from research and development collaborations depends upon continuation of the collaborations, payments for research and development services and product supply, and the achievement of milestones, contingent payments and royalties, if any, derived from future products developed from our research. If we are unable to successfully advance the development of our product candidates or achieve milestones, revenue and cash resources from milestone payments under our collaboration agreements will be substantially less than expected.

We are unable to predict the success of our collaborations and we may not realize the anticipated benefits of our strategic collaborations. Our collaborators have discretion in determining and directing the efforts and resources, including the ability to discontinue all efforts and resources, they apply to the development and, if approval is obtained, commercialization and marketing of the product candidates covered by such collaborations. As a result, our collaborators may elect to de-prioritize our programs, change their strategic focus or pursue alternative technologies in a manner that results in reduced, delayed or no revenue to us. Our collaborators may have other marketed products and product candidates under collaboration with other companies, including some of our competitors, and their

---

## Table of Contents

corporate objectives may not be consistent with our best interests. Our collaborators may also be unsuccessful in developing or commercializing our products. If our collaborations are unsuccessful, our business, financial condition, results of operations and prospects could be adversely affected. In addition, any dispute or litigation proceedings we may have with our collaborators in the future could delay development programs, create uncertainty as to ownership of intellectual property rights, distract management from other business activities and generate substantial expense.

Moreover, to the extent that any of our existing or future collaborators were to terminate a collaboration agreement, we may be forced to independently develop these product candidates, including funding preclinical studies or clinical trials, assuming marketing and distribution costs and defending intellectual property rights, or, in certain instances, abandon product candidates altogether, any of which could result in a change to our business plan and have a material adverse effect on our business, financial condition, results of operations and prospects.

***We may not successfully engage in strategic transactions, including any additional collaborations we seek, which could adversely affect our ability to develop and commercialize product candidates, impact our cash position, increase our expenses and present significant distractions to our management.***

From time to time, we may consider strategic transactions, such as additional collaborations, acquisitions of companies, asset purchases and out- or in-licensing of product candidates or technologies that we believe will complement or augment our existing business. In particular, we will evaluate and, if strategically attractive, seek to enter into additional collaborations, including with major biotechnology or biopharmaceutical companies. The competition for collaborators is intense, and the negotiation process is time-consuming and complex. Any new collaboration may be on terms that are not optimal for us, and we may not be able to maintain any new collaboration if, for example, development or approval of a product candidate is delayed, sales of an approved product candidate do not meet expectations or the collaborator terminates the collaboration. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future strategic partners. Our ability to reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the strategic partner's resources and expertise, the terms and conditions of the proposed collaboration and the proposed strategic partner's evaluation of a number of factors. These factors may include the design or results of clinical trials, the likelihood of approval by the FDA or similar regulatory authorities outside the United States, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to patients, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge and industry and market conditions generally. Moreover, if we acquire assets with promising markets or technologies, we may not be able to realize the benefit of acquiring such assets due to an inability to successfully integrate them with our existing technologies and we may encounter numerous difficulties in developing, manufacturing and marketing any new products resulting from a strategic acquisition that delay or prevent us from realizing their expected benefits or enhancing our business.

We cannot assure you that following any such collaboration, or other strategic transaction, we will achieve the expected synergies to justify the transaction. For example, such transactions may require us to incur non-recurring or other charges, increase our near- and long-term expenditures and pose significant integration or implementation challenges or disrupt our management or business. These transactions would entail numerous operational and financial risks, including exposure to unknown liabilities, disruption of our business and diversion of our management's time and attention in order to manage a collaboration or develop acquired products, product candidates or technologies, incurrence of substantial debt or dilutive issuances of equity securities to pay transaction consideration or costs, higher than expected collaboration, acquisition or integration costs, write-downs of assets or goodwill

---

## Table of Contents

or impairment charges, increased amortization expenses, difficulty and cost in facilitating the collaboration or combining the operations and personnel of any acquired business, impairment of relationships with key suppliers, manufacturers or customers of any acquired business due to changes in management and ownership and the inability to retain key employees of any acquired business. Also, such strategic alliance, joint venture or acquisition may be prohibited. For example, our Loan and Security Agreement, in the absence of SVB's prior written consent, restricts our ability to pursue certain mergers, acquisitions, amalgamations or consolidations that we may believe to be in our best interest.

Accordingly, although there can be no assurance that we will undertake or successfully complete any transactions of the nature described above, any transactions that we do complete may be subject to the foregoing or other risks and would have a material and adverse effect on our business, financial condition, results of operations and prospects. Conversely, any failure to enter any additional collaboration or other strategic transaction that would be beneficial to us could delay the development and potential commercialization of our product candidates and have a negative impact on the competitiveness of any product candidate that reaches market.

***We expect to rely on third parties to conduct certain of our preclinical studies or clinical trials. If those third parties do not perform as contractually required, fail to satisfy regulatory or legal requirements or miss expected deadlines, our development program could be delayed with potentially material and adverse effects on our business, financial condition, results of operations and prospects.***

We have relied in some cases and intend to rely in the future on third-party clinical investigators, clinical research organizations, or CROs, clinical data management organizations and consultants to assist or provide the design, conduct, supervision and monitoring of preclinical studies and clinical trials of our product candidates. Because we intend to rely on these third parties and will not have the ability to conduct all preclinical studies or clinical trials independently, we will have less control over the timing, quality and other aspects of preclinical studies and clinical trials than we would have had we conducted them on our own. These investigators, CROs and consultants will not be our employees and we will have limited control over the amount of time and resources that they dedicate to our programs. These third parties may have contractual relationships with other entities, some of which may be our competitors, which may draw time and resources from our programs. The third parties with which we may contract might not be diligent, careful or timely in conducting our preclinical studies or clinical trials, resulting in the preclinical studies or clinical trials being delayed or unsuccessful.

If we cannot contract with acceptable third parties on commercially reasonable terms, or at all, or if these third parties do not carry out their contractual duties, satisfy legal and regulatory requirements for the conduct of preclinical studies or clinical trials or meet expected deadlines, our clinical development programs could be delayed and otherwise adversely affected. In all events, we will be responsible for ensuring that each of our preclinical studies and clinical trials are conducted in accordance with the general investigational plan and protocols for the trial. The FDA requires preclinical studies to be conducted in accordance with good laboratory practices and clinical trials to be conducted in accordance with good clinical practices, including for designing, conducting, recording and reporting the results of preclinical studies and clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of clinical trial participants are protected. Our reliance on third parties that we do not control will not relieve us of these responsibilities and requirements. Any adverse development or delay in our preclinical studies or clinical trials as a result of our reliance on third parties could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***If we are unable to obtain sufficient raw and intermediate materials on a timely basis or if we experience other manufacturing or supply difficulties, our business may be adversely affected.***

The manufacture of certain of our product candidates requires the timely delivery of sufficient amounts of raw and intermediate materials. We work closely with our suppliers to ensure the continuity of supply, but cannot guarantee these efforts will always be successful. Further, while efforts are made to diversify our sources of raw and intermediate materials, in certain instances we acquire raw and intermediate materials from a sole supplier. While we believe that alternative sources of supply exist where we rely on sole supplier relationships, there can be no assurance that we will be able to quickly establish additional or replacement sources for some materials. A reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect our ability to manufacture our product candidates in a timely or cost-effective manner.

***We currently manufacture a portion of our product candidates internally and also rely on third-party manufacturing and supply partners to supply components of our product candidates. Our inability to manufacture sufficient quantities of our product candidates, or the loss of our third-party suppliers, or our or their failure to comply with applicable regulatory requirements or to supply sufficient quantities at acceptable quality levels or prices, or at all, would materially and adversely affect our business.***

Manufacturing is a vital component of our business strategy. To ensure timely and consistent product supply we currently use a hybrid product supply approach wherein certain elements of our product candidates are manufactured internally at our manufacturing facilities in San Carlos, California, and other elements are manufactured at qualified third-party CMOs. Since our own manufacturing facilities may be limited or unable to manufacture certain of our preclinical and clinical trial product materials and supplies, we rely on third-party contract manufacturers to manufacture such clinical trial product materials and supplies for our or our collaborator's needs. There can be no assurance that our preclinical and clinical development product supplies will not be limited, interrupted, or of satisfactory quality or continue to be available at acceptable prices. In particular, any replacement of our manufacturer could require significant effort and expertise because there may be a limited number of qualified replacements.

The manufacturing process for a product candidate is subject to FDA and foreign regulatory authority review. We, and our suppliers and manufacturers, must meet applicable manufacturing requirements and undergo rigorous facility and process validation tests required by regulatory authorities in order to comply with regulatory standards, such as cGMPs. If we or our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA or comparable foreign regulatory authorities, we may not be able to rely on our or their manufacturing facilities for the manufacture of elements of our product candidates. Moreover, we do not control the manufacturing process at our contract manufacturers, and are completely dependent on them for compliance with current regulatory requirements. In the event that any of our manufacturers fails to comply with such requirements or to perform its obligations in relation to quality, timing or otherwise, or if our supply of components or other materials becomes limited or interrupted for other reasons, we may be forced to manufacture the materials ourselves or enter into an agreement with another third party, which we may not be able to do on reasonable terms, if at all. In some cases, the technical skills or technology required to manufacture our product candidates may be unique or proprietary to the original manufacturer and we may have difficulty applying such skills or technology ourselves, or in transferring such to another third party. These factors would increase our reliance on such manufacturer or require us to obtain a license from such manufacturer in order to enable us, or to have another third party, manufacture our product candidates. If we are required to change manufacturers for any reason, we will be required to verify that the new manufacturer maintains facilities and procedures that comply with quality standards and with all applicable regulations and guidelines; and we may be required to repeat some of the development

program. The delays associated with the verification of a new manufacturer could negatively affect our ability to develop product candidates in a timely manner or within budget.

We expect to continue to rely on third-party manufacturers if we receive regulatory approval for any product candidate. To the extent that we have existing, or enter into future, manufacturing arrangements with third parties, we will depend on these third parties to perform their obligations in a timely manner consistent with contractual and regulatory requirements, including those related to quality control and assurance. If we are unable to obtain or maintain third-party manufacturing for product candidates, or to do so on commercially reasonable terms, we may not be able to develop and commercialize our product candidates successfully. Our or a third party's failure to execute on our manufacturing requirements and comply with cGMPs could adversely affect our business in a number of ways, including:

- an inability to initiate or continue clinical trials of product candidates under development;
- delay in submitting regulatory applications, or receiving regulatory approvals, for product candidates;
- loss of the cooperation of an existing or future collaborator;
- subjecting third-party manufacturing facilities or our manufacturing facilities to additional inspections by regulatory authorities;
- requirements to cease distribution or to recall batches of our product candidates; and
- in the event of approval to market and commercialize a product candidate, an inability to meet commercial demands for our products.

Additionally, we and our contract manufacturers may experience manufacturing difficulties due to resource constraints or as a result of labor disputes or unstable political environments. If we or our contract manufacturers were to encounter any of these difficulties, our ability to provide our product candidates to patients in pre-clinical and clinical trials, or to provide product for treatment of patients once approved, would be jeopardized.

***We, or third-party manufacturers, may be unable to successfully scale-up manufacturing of our product candidates in sufficient quality and quantity, which would delay or prevent us from developing our product candidates and commercializing approved products, if any.***

In order to conduct clinical trials of our product candidates, we will need to manufacture them in large quantities. We, or any manufacturing partners, may be unable to successfully increase the manufacturing capacity for any of our product candidates in a timely or cost-effective manner, or at all. In addition, quality issues may arise during scale-up activities. If we, or any manufacturing partners, are unable to successfully scale up the manufacture of our product candidates in sufficient quality and quantity, the development, testing, and clinical trials of that product candidate may be delayed or infeasible, and regulatory approval or commercial launch of any resulting product may be delayed or not obtained, which could significantly harm our business.

***The manufacture of biologics is complex and we or our third-party manufacturers may encounter difficulties in production. If we or any of our third-party manufacturers encounter such difficulties, our ability to provide supply of our product candidates for clinical trials, our ability to obtain marketing approval, or our ability to provide supply of our products for patients, if approved, could be delayed or stopped.***

Our product candidates are considered to be biologics and the process of manufacturing biologics is complex, time-consuming, highly regulated and subject to multiple risks. We and our contract manufacturers must comply with cGMPs, regulations and guidelines for the manufacturing of biologics used in clinical trials and, if approved, marketed products. To date, we and our contract manufacturers have limited experience in the manufacturing of cGMP batches of our product candidates.

---

## Table of Contents

Manufacturing biologics is highly susceptible to product loss due to contamination, equipment failure, improper installation or operation of equipment, vendor or operator error, inconsistency in yields, variability in product characteristics and difficulties in scaling the production process. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered at our manufacturing facilities or those of our third-party manufacturers, such facilities may need to be closed for an extended period of time to investigate and remedy the contamination, which could delay clinical trials and adversely harm our business. Moreover, if the FDA determines that our manufacturing facilities or those of our third-party manufacturers are not in compliance with FDA laws and regulations, including those governing cGMPs, the FDA may deny BLA approval until the deficiencies are corrected or we replace the manufacturer in our BLA with a manufacturer that is in compliance.

In addition, there are risks associated with large scale manufacturing for clinical trials or commercial scale including, among others, cost overruns, potential problems with process scale-up, process reproducibility, stability issues, compliance with cGMPs, lot consistency and timely availability of raw materials. Even if we or our collaborators obtain regulatory approval for any of our product candidates, there is no assurance that manufacturers will be able to manufacture the approved product to specifications acceptable to the FDA or other regulatory authorities, to produce it in sufficient quantities to meet the requirements for the potential launch of the product or to meet potential future demand. If our manufacturers are unable to produce sufficient quantities for clinical trials or for commercialization, commercialization efforts would be impaired, which would have an adverse effect on our business, financial condition, results of operations and prospects.

Scaling up a biologic manufacturing process is a difficult and uncertain task, and we may not be successful in transferring our production system or our third-party manufacturers may not have the necessary capabilities to complete the implementation and development process. If we are unable to adequately validate or scale-up the manufacturing process at our own manufacturing facilities or those of our current manufacturers, we will need to transfer to another manufacturer and complete the manufacturing validation process, which can be lengthy. If we are able to adequately validate and scale-up the manufacturing process for our product candidates at our manufacturing facility or with a contract manufacturer, we will still need to negotiate with such contract manufacturer an agreement for commercial supply and it is not certain we will be able to come to agreement on terms acceptable to us.

We cannot assure you that any stability or other issues relating to the manufacture of any of our product candidates or products will not occur in the future. If we or our third-party manufacturers were to encounter any of these difficulties, our ability to provide any product candidates to patients in planned clinical trials and products to patients, once approved, would be jeopardized. Any delay or interruption in the supply of clinical trial supplies could delay the completion of planned clinical trials, increase the costs associated with maintaining clinical trial programs and, depending upon the period of delay, require us to commence new clinical trials at additional expense or terminate clinical trials completely. Any adverse developments affecting clinical or commercial manufacturing of our product candidates or products may result in shipment delays, inventory shortages, lot failures, product withdrawals or recalls, or other interruptions in the supply of our product candidates or products. We may also have to take inventory write-offs and incur other charges and expenses for product candidates or products that fail to meet specifications, undertake costly remediation efforts or seek more costly manufacturing alternatives. Accordingly, failures or difficulties faced at any level of our supply chain could adversely affect our business and delay or impede the development and commercialization of any of our product candidates or products, if approved, and could have an adverse effect on our business, prospects, financial condition and results of operations.

As part of our process development efforts, we also may make changes to our manufacturing processes at various points during development, for various reasons, such as controlling costs, achieving scale, decreasing processing time, increasing manufacturing success rate or other reasons. Such changes carry the risk that they will not achieve their intended objectives, and any of these changes could cause our product candidates to perform differently and affect the results of our ongoing clinical trials or future clinical trials. In some circumstances, changes in the manufacturing process may require us to perform *ex vivo* comparability studies and to collect additional data from patients prior to undertaking more advanced clinical trials. For instance, changes in our process during the course of clinical development may require us to show the comparability of the product used in earlier clinical phases or at earlier portions of a trial to the product used in later clinical phases or later portions of the trial.

***We may not be successful in our efforts to use our XpressCF Platform to expand our pipeline of product candidates and develop marketable products.***

The success of our business depends in large part upon our ability to identify, develop and commercialize products based on our XpressCF Platform. STRO-001 and STRO-002 are our primary clinical and late-stage preclinical programs and our research programs may fail to identify other potential product candidates for clinical development for a number of reasons. Our research methodology may be unsuccessful in identifying potential product candidates or our potential product candidates may be shown to have harmful side effects or may have other characteristics that may make the products unmarketable or unlikely to receive marketing approval. If any of these events occur, we may be forced to abandon our development efforts for a program or for multiple programs, which would materially harm our business and could potentially cause us to cease operations. Research programs to identify new product candidates require substantial technical, financial and human resources. We may focus our efforts and resources on potential programs or product candidates that ultimately prove to be unsuccessful.

***We may expend our limited resources to pursue a particular product candidate and fail to capitalize on product candidates that may be more profitable or for which there is a greater likelihood of success.***

Because we have limited financial and managerial resources, we focus our research and development efforts on certain selected product candidates. As a result, we may forgo or delay pursuit of opportunities with other product candidates that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable product candidates. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

***Failure to successfully validate, develop and obtain regulatory approval for companion diagnostics for our product candidates could harm our drug development strategy and operational results.***

If companion diagnostics are developed in conjunction with clinical programs, the FDA may require regulatory approval of a companion diagnostic as a condition to approval of the product candidate. For example, if we use a diagnostic test to determine which patients are most likely to benefit from STRO-001 for the treatment of multiple myeloma and non-Hodgkin lymphoma by designing our pivotal trial or trials of STRO-001 in that indication to require that clinical trial patients have elevated CD74 expression as a criterion for enrollment, then we will likely be required to obtain FDA approval or



---

## Table of Contents

clearance of a companion diagnostic, concurrent with approval of STRO-001, to test for elevated CD74 expression; we may also be required to demonstrate to the FDA the predictive utility of the companion diagnostic—namely, that the diagnostic selects for patients in whom the biologic therapy will be effective or more effective compared to patients not selected for by the diagnostic. Similarly, as we are developing STRO-002 for a potential indication in patients with elevated FOLR<sub>a</sub> expression levels, we will likely be required to obtain FDA approval or clearance of a companion diagnostic, concurrent with approval of STRO-002, to test for elevated FOLR<sub>a</sub> expression. We do not have experience or capabilities in developing or commercializing diagnostics and plan to rely in large part on third parties to perform these functions. We do not currently have any agreement in place with any third party to develop or commercialize companion diagnostics for any of our product candidates. Companion diagnostics are subject to regulation by the FDA and foreign regulatory authorities as medical devices and require separate regulatory approval or clearance prior to commercialization.

If we or our collaborators, or any third party, are unable to successfully develop companion diagnostics for our product candidates, or experience delays in doing so:

- the development of our product candidates may be adversely affected if we are unable to appropriately select patients for enrollment in our planned clinical trials;
- our product candidates may not receive marketing approval if their safe and effective use depends on a companion diagnostic; and
- we may not realize the full commercial potential of any product candidates that receive marketing approval if, among other reasons, we are unable to appropriately identify patients with the specific genetic alterations targeted by our product candidates.

In addition, although we believe genetic testing is becoming more prevalent in the diagnosis and treatment of various diseases and conditions, our product candidates may be perceived negatively compared to alternative treatments that do not require the use of companion diagnostics, either due to the additional cost of the companion diagnostic or the need to complete additional procedures to identify genetic markers prior to administering our product candidates. If any of these events were to occur, our business would be harmed, possibly materially.

***We face competition from entities that have developed or may develop product candidates for cancer, including companies developing novel treatments and technology platforms. If these companies develop technologies or product candidates more rapidly than we do or their technologies are more effective, our ability to develop and successfully commercialize product candidates may be adversely affected.***

The development and commercialization of drugs and therapeutic biologics is highly competitive. Our product candidates, if approved, will face significant competition and our failure to effectively compete may prevent us from achieving significant market penetration. Most of our competitors have significantly greater resources than we do and we may not be able to successfully compete. We compete with a variety of multinational biopharmaceutical companies, specialized biotechnology companies and emerging biotechnology companies, as well as with technologies and product candidates being developed at universities and other research institutions. Our competitors have developed, are developing or will develop product candidates and processes competitive with our product candidates and processes. Competitive therapeutic treatments include those that have already been approved and accepted by the medical community and any new treatments, including those based on novel technology platforms, that enter the market. We believe that a significant number of products are currently under development, and may become commercially available in the future, for the treatment of conditions for which we are trying, or may try, to develop product candidates. There is intense and rapidly evolving competition in the biotechnology, biopharmaceutical and antibody and immunoregulatory therapeutics fields. While we believe that our XpressCF Platform, associated

---

## Table of Contents

intellectual property and our scientific and technical know-how give us a competitive advantage in this space, competition from many sources exists or may arise in the future. Our competitors include larger and better funded biopharmaceutical, biotechnological and therapeutics companies, including companies focused on cancer immunotherapies, such as AstraZeneca PLC, Bristol-Myers Squibb Company, or BMS, GlaxoSmithKline PLC, Merck & Co., Inc., Novartis AG, Pfizer Inc., or Pfizer, Roche Holding Ltd, Sanofi S.A and companies focused on ADCs, such as Pfizer, ImmunoGen, Inc., or Immunogen, Seattle Genetics, Inc., or Seattle Genetics, and Genentech, Inc., or Genentech, as well as numerous small companies. Moreover, we also compete with current and future therapeutics developed at universities and other research institutions.

We are aware of several companies that are developing ADCs, bispecific antibodies and cancer immunotherapies. Many of these companies are well-capitalized and, in contrast to us, have significant clinical experience, and may include our existing or future collaborators. In addition, these companies compete with us in recruiting scientific and managerial talent.

Our success will depend partially on our ability to develop and protect therapeutics that are safer and more effective than competing products. Our commercial opportunity and success will be reduced or eliminated if competing products are safer, more effective, or less expensive than the therapeutics we develop.

If our lead product candidates are approved, they will compete with a range of therapeutic treatments that are either in development or currently marketed. Currently marketed oncology drugs and therapeutics range from ADCs, such as Genentech's Kadcyla, to immune checkpoint inhibitors such as BMS's Opdivo to T cell-engager immunotherapies such as Amgen, Inc.'s Blincyto. In addition, numerous compounds are in clinical development for cancer treatment. With respect to B cell based malignancies, such as multiple myeloma, the most common treatments are chemotherapeutic compounds, radiation therapy, stem cell transplantation and immunomodulating agents. The clinical development pipeline for cancer includes small molecules, antibodies, vaccines, cell therapies and immunotherapies from a variety of companies and institutions.

Many of our competitors have significantly greater financial, technical, manufacturing, marketing, sales and supply resources or experience than we have. If we successfully obtain approval for any product candidate, we will face competition based on many different factors, including the safety and effectiveness of our products, the ease with which our products can be administered and the extent to which patients accept relatively new routes of administration, the timing and scope of regulatory approvals for these products, the availability and cost of manufacturing, marketing and sales capabilities, price, reimbursement coverage and patent position. Competing products could present superior treatment alternatives, including by being more effective, safer, less expensive or marketed and sold more effectively than any products we may develop. Competitive products may make any products we develop obsolete or noncompetitive before we recover the expense of developing and commercializing our product candidates. Such competitors could also recruit our employees, which could negatively impact our level of expertise and our ability to execute our business plan.

***Any inability to attract and retain qualified key management and technical personnel would impair our ability to implement our business plan.***

Our success largely depends on the continued service of key management, advisors and other specialized personnel, including William J. Newell, our chief executive officer, Edward Albin, our chief financial officer, Trevor J. Hallam, Ph.D., our chief scientific officer, Arturo Molina, M.D., our chief medical officer and Shabbir T. Anik, Ph.D., our chief technical operations officer. The loss of one or more members of our management team or other key employees or advisors could delay our research and development programs and have a material and adverse effect on our business, financial condition, results of operations and prospects. The relationships that our key managers have cultivated

within our industry make us particularly dependent upon their continued employment with us. We are dependent on the continued service of our technical personnel because of the highly technical nature of our product candidates and XpressCF Platform technologies and the specialized nature of the regulatory approval process. Because our management team and key employees are not obligated to provide us with continued service, they could terminate their employment with us at any time without penalty. Our future success will depend in large part on our continued ability to attract and retain other highly qualified scientific, technical and management personnel, as well as personnel with expertise in clinical testing, manufacturing, governmental regulation and commercialization. We face competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations. If we are unable to continue to attract and retain high-quality personnel, the rate and success at which we can discover and develop product candidates will be limited which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***We will need to grow our organization, and we may experience difficulties in managing our growth and expanding our operations.***

As of June 30, 2018, we had 128 full-time employees. As our development and commercialization plans and strategies develop, and as we transition into operating as a public company, we expect to expand our employee base for managerial, operational, financial and other resources. In addition, we have limited experience in product development and have just begun our first clinical trial for our first product candidate. As our product candidates enter and advance through preclinical studies and clinical trials, we will need to expand our development, regulatory and manufacturing capabilities or contract with other organizations to provide these capabilities for us. In the future, we expect to have to manage additional relationships with collaborators or partners, suppliers and other organizations. Our ability to manage our operations and future growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. We may not be able to implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls. Our inability to successfully managing our growth and expand our operations could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***If any of our product candidates are approved for marketing and commercialization and we are unable to develop sales, marketing and distribution capabilities on our own or enter into agreements with third parties to perform these functions on acceptable terms, we will be unable to commercialize successfully any such future products.***

We currently have no sales, marketing or distribution capabilities or experience. If any of our product candidates are approved, we will need to develop internal sales, marketing and distribution capabilities to commercialize such products, which would be expensive and time consuming, or enter into collaborations with third parties to perform these services. If we decide to market our products directly, we will need to commit significant financial and managerial resources to develop a marketing and sales force with technical expertise and supporting distribution, administration and compliance capabilities. If we rely on third parties with such capabilities to market our products or decide to co-promote products with collaborators, we will need to establish and maintain marketing and distribution arrangements with third parties, and there can be no assurance that we will be able to enter into such arrangements on acceptable terms or at all. In entering into third-party marketing or distribution arrangements, any revenue we receive will depend upon the efforts of the third parties and there can be no assurance that such third parties will establish adequate sales and distribution capabilities or be successful in gaining market acceptance of any approved product. If we are not successful in commercializing any product approved in the future, either on our own or through third parties, our business, financial condition, results of operations and prospects could be materially and adversely affected.

***Our future growth may depend, in part, on our ability to operate in foreign markets, where we would be subject to additional regulatory burdens and other risks and uncertainties.***

Our future growth may depend, in part, on our ability to develop and commercialize our product candidates in foreign markets for which we may rely on collaboration with third parties. We are not permitted to market or promote any of our product candidates before we receive regulatory approval from the applicable regulatory authority in that foreign market, and may never receive such regulatory approval for any of our product candidates. To obtain separate regulatory approval in many other countries, we must comply with numerous and varying regulatory requirements of such countries regarding safety and efficacy and governing, among other things, clinical trials and commercial sales, pricing and distribution of our product candidates, and we cannot predict success in these jurisdictions. If we fail to comply with the regulatory requirements in international markets and receive applicable marketing approvals, our target market will be reduced and our ability to realize the full market potential of our product candidates will be harmed and our business will be adversely affected. We may not obtain foreign regulatory approvals on a timely basis, if at all. Our failure to obtain approval of any of our product candidates by regulatory authorities in another country may significantly diminish the commercial prospects of that product candidate and our business, financial condition, results of operations and prospects could be materially and adversely affected. Moreover, even if we obtain approval of our product candidates and ultimately commercialize our product candidates in foreign markets, we would be subject to the risks and uncertainties, including the burden of complying with complex and changing foreign regulatory, tax, accounting and legal requirements and reduced protection of intellectual property rights in some foreign countries.

***Price controls imposed in foreign markets may adversely affect our future profitability.***

In some countries, particularly member states of the EU, the pricing of prescription drugs is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after receipt of marketing approval for a product. In addition, there can be considerable pressure by governments and other stakeholders on prices and reimbursement levels, including as part of cost containment measures. Political, economic and regulatory developments may further complicate pricing negotiations, and pricing negotiations may continue after reimbursement has been obtained. Reference pricing used by various EU member states and parallel distribution, or arbitrage between low-priced and high-priced member states, can further reduce prices. In some countries, we or current or future collaborators may be required to conduct a clinical trial or other studies that compare the cost-effectiveness of our therapeutic candidates to other available therapies in order to obtain or maintain reimbursement or pricing approval. Publication of discounts by third-party payors or authorities may lead to further pressure on the prices or reimbursement levels within the country of publication and other countries. If reimbursement of any product candidate approved for marketing is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business, financial condition, results of operations or prospects could be materially and adversely affected.

***Our business entails a significant risk of product liability and our ability to obtain sufficient insurance coverage could have a material and adverse effect on our business, financial condition, results of operations and prospects.***

As we are conducting clinical trials of our product candidates we may be exposed to significant product liability risks inherent in the development, testing, manufacturing and marketing of therapeutic treatments. Product liability claims could delay or prevent completion of our development programs. If we succeed in marketing products, such claims could result in an FDA investigation of the safety and effectiveness of our products, our manufacturing processes and facilities or our marketing programs and potentially a recall of our products or more serious enforcement action, limitations on the approved indications for which they may be used or suspension or withdrawal of approvals. Regardless of the merits or eventual outcome, liability claims may also result in decreased demand for our products,

injury to our reputation, costs to defend the related litigation, a diversion of management's time and our resources, substantial monetary awards to trial participants or patients and a decline in our stock price. While we currently have product liability insurance that we believe is appropriate for our stage of development, we may need to obtain higher levels prior to later stages of clinical development or marketing any of our product candidates. Any insurance we have or may obtain may not provide sufficient coverage against potential liabilities. Furthermore, clinical trial and product liability insurance is becoming increasingly expensive. As a result, we may be unable to obtain sufficient insurance at a reasonable cost to protect us against losses caused by product liability claims that could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.***

As with all companies, we are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with FDA regulations, provide accurate information to the FDA, comply with manufacturing standards we may establish, comply with federal and state healthcare fraud and abuse laws and regulations, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. It is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a material and adverse effect on our business, financial condition, results of operations and prospects, including the imposition of significant civil, criminal and administrative penalties, damages, fines, disgorgement, imprisonment, the curtailment or restructuring of our operations, loss of eligibility to obtain approvals from the FDA, exclusion from participation in government contracting, healthcare reimbursement or other government programs, including Medicare and Medicaid, integrity oversight and reporting obligations, or reputational harm.

***We depend on our information technology systems, and any failure of these systems, or those of our CROs or other contractors or consultants we may utilize, could harm our business. Security breaches, loss of data, and other disruptions could compromise sensitive information related to our business or prevent us from accessing critical information and expose us to liability, which could adversely affect our business, results of operations, financial condition and prospects.***

We collect and maintain information in digital form that is necessary to conduct our business, and we are increasingly dependent on information technology systems and infrastructure to operate our business. In the ordinary course of our business, we collect, store and transmit large amounts of confidential information, including intellectual property, proprietary business information and personal information. It is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We have established physical, electronic and organizational measures to safeguard and secure our systems to prevent a data compromise, and rely on commercially available systems, software, tools, and monitoring to provide security for our information technology systems and the processing, transmission and storage of digital information. We have also outsourced elements of our information technology infrastructure, and as a result a number of third-party vendors may or

---

## Table of Contents

could have access to our confidential information. Our internal information technology systems and infrastructure, and those of our current and any future collaborators, contractors and consultants and other third parties on which we rely, are vulnerable to damage from computer viruses, malware, natural disasters, terrorism, war, telecommunication and electrical failures, cyber-attacks or cyber-intrusions over the Internet, attachments to emails, persons inside our organization, or persons with access to systems inside our organization.

The risk of a security breach or disruption or data loss, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. In addition, the prevalent use of mobile devices that access confidential information increases the risk of data security breaches, which could lead to the loss of confidential information or other intellectual property. The costs to us to mitigate network security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and while we have implemented security measures to protect our data security and information technology systems, our efforts to address these problems may not be successful, and these problems could result in unexpected interruptions, delays, cessation of service and other harm to our business and our competitive position. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our product development programs. For example, the loss of clinical trial data from completed or ongoing or planned clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Moreover, if a computer security breach affects our systems or results in the unauthorized release of personally identifiable information, our reputation could be materially damaged. In addition, such a breach may require notification to governmental agencies, the media or individuals pursuant to various federal and state privacy and security laws, if applicable, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, and its implementing rules and regulations, as well as regulations promulgated by the Federal Trade Commission and state breach notification laws. We would also be exposed to a risk of loss or litigation and potential liability, which could materially adversely affect our business, results of operations, financial condition and prospects.

***Our information technology systems could face serious disruptions that could adversely affect our business.***

Our information technology and other internal infrastructure systems, including corporate firewalls, servers, leased lines and connection to the Internet, face the risk of systemic failure that could disrupt our operations. A significant disruption in the availability of our information technology and other internal infrastructure systems could cause interruptions and delays in our research and development and manufacturing work.

***The terms of our Loan and Security Agreement require us to meet certain covenants and place restrictions on our operating and financial flexibility. If we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business.***

The Loan and Security Agreement is secured by a lien covering all of our assets, excluding our intellectual property and certain other assets. Subject to the terms of the Loan and Security Agreement, we have the option to prepay all, but not less than all, of the amounts borrowed under the Loan and Security Agreement, subject to certain penalty payments, prior to the August 1, 2021 maturity date, at which time all amounts borrowed will be due and payable.

In connection with the Loan and Security Agreement, we issued Oxford and SVB warrants to purchase shares of Series D-2 redeemable convertible preferred stock, which, in connection with the initial closing of our Series E redeemable preferred stock financing, converted into warrants to purchase Series E redeemable convertible preferred stock.

---

## [Table of Contents](#)

The Loan and Security Agreement contains customary affirmative and negative covenants, indemnification provisions and events of default. The affirmative covenants include, among others, covenants requiring us to maintain our legal existence and governmental approvals, deliver certain financial reports and maintain certain intellectual property rights. The negative covenants include, among others, restrictions on transferring or licensing our assets, changing our business, incurring additional indebtedness, engaging in mergers or acquisitions, paying dividends or making other distributions, and creating other liens on our assets, in each case subject to customary exceptions. If we default under the Loan and Security Agreement, the lenders will be able to declare all obligations immediately due and payable and take control of our collateral, potentially requiring us to renegotiate our agreement on terms less favorable to us or to immediately cease operations. Further, if we are liquidated, the rights of Oxford and SVB to repayment would be senior to the rights of the holders of our common stock to receive any proceeds from the liquidation. Oxford, acting as collateral agent for the lenders, could declare a default under the Loan and Security Agreement upon the occurrence of any event that Oxford and SVB interpret as a material adverse change as defined under the Loan and Security Agreement, thereby requiring us to repay the loan immediately or to attempt to reverse the declaration of default through negotiation or litigation. Any declaration by the collateral agent of an event of default could significantly harm our business and prospects and could cause the price of our common stock to decline. If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

***If we do not comply with laws regulating the protection of the environment and health and human safety, our business could be affected adversely.***

Our research, development and manufacturing involves the use of hazardous chemicals and materials, including radioactive materials. We maintain quantities of various flammable and toxic chemicals in our facilities in South San Francisco and San Carlos, California that are required for our research, development and manufacturing activities. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous chemicals and materials. We believe our procedures for storing, handling and disposing these materials in our South San Francisco and San Carlos facilities comply with the relevant guidelines of the two municipalities, the counties of San Francisco and San Mateo, the state of California and the Occupational Safety and Health Administration of the U.S. Department of Labor. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards mandated by applicable regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. If an accident occurs, we could be held liable for resulting damages, which could be substantial. We are also subject to numerous environmental, health and workplace safety laws and regulations, including those governing laboratory procedures, exposure to blood-borne pathogens and the handling of animals and biohazardous materials. Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of these materials, this insurance may not provide adequate coverage against potential liabilities. While we maintain pollution legal liability insurance for our manufacturing facility in San Carlos, California, we do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological or hazardous materials in our other locations. Additional federal, state and local laws and regulations affecting our operations may be adopted in the future. We may incur substantial costs to comply with, and substantial fines or penalties if we violate, any of these laws or regulations.

***Our current operations are in two cities in the San Francisco Bay Area, and we or the third parties upon whom we depend may be adversely affected by earthquakes or other natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.***

Our current operations are located in our facilities in South San Francisco and San Carlos, California. Any unplanned event, such as earthquake, flood, fire, explosion, extreme weather condition,

medical epidemic, power shortage, telecommunication failure or other natural or manmade accidents or incidents that result in us being unable to fully utilize our facilities, or the manufacturing facilities of our third-party contract manufacturers, may have a material and adverse effect on our ability to operate our business, particularly on a daily basis, and have significant negative consequences on our financial and operating conditions. Loss of access to these facilities may result in increased costs, delays in the development of our product candidates or interruption of our business operations. Earthquakes or other natural disasters could further disrupt our operations, and have a material and adverse effect on our business, financial condition, results of operations and prospects. If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, such as our research or manufacturing facilities or the manufacturing facilities of our third-party contract manufacturers, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The disaster recovery and business continuity plans we have in place may prove inadequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of the limited nature of our disaster recovery and business continuity plans, which could have a material adverse effect on our business. As part of our risk management policy, we maintain insurance coverage at levels that we believe are appropriate for our business. However, in the event of an accident or incident at these facilities, we cannot assure you that the amounts of insurance will be sufficient to satisfy any damages and losses. If our facilities, or the manufacturing facilities of our third-party contract manufacturers, are unable to operate because of an accident or incident or for any other reason, even for a short period of time, any or all of our research and development programs may be harmed. Any business interruption could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.***

Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change” (generally defined as a greater than 50 percentage points change (by value) in the ownership of its equity over a rolling three-year period), the corporation’s ability to use its pre-change net operating loss, or NOL, carryforwards and certain other pre-change tax attributes to offset its post-change income and taxes may be limited. We have experienced such ownership changes in the past, and we may have experienced a further ownership change in connection with the Series E redeemable convertible preferred stock financing, as a result of the price at which the shares were issued and the number of shares that were issued. Moreover, we may experience ownership changes in the future as a result of this offering and the concurrent private placement or subsequent shifts in our stock ownership, some of which are outside our control. As of December 31, 2017, we had federal NOL carryforwards of approximately \$91.6 million, and our ability to utilize those NOL carryforwards could be limited by an “ownership change” as described above, which could result in increased tax liability to our company.

On December 22, 2017, the current U.S. presidential administration, signed into law the Tax Cuts and Jobs Act of 2017, or the Tax Reform Act. The legislation significantly changes U.S. tax law by, among other things, lowering the corporate income tax rates. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Additionally, the Tax Reform Act will no longer allow deductions for compensation in excess of \$1.0 million for certain employees, even if paid as commissions or performance-based compensation. We may be subject to these limitations as provided for under Section 162(m) of the Code in the future. The Tax Reform Act also limits the amount taxpayers are able to deduct for federal NOL carryforwards generated in taxable years beginning after December 31, 2017 to 80% of the taxpayer’s taxable income. The law also generally repeals all carrybacks. However, any NOLs generated in taxable years after December 31, 2017 can be carried forward indefinitely. Losses arising in taxable years beginning before December 31, 2017 may still be carried back two years and are



subject to their current expiration period. As of December 31, 2017, we have approximately \$91.6 million of federal NOLs that were generated prior to 2018 which will expire at various dates beginning in 2032, if not used to reduce income taxes payable in the future. Federal NOLs generated by us subsequent to 2017 may only offset 80% of taxable income.

The Securities and Exchange Commission, or SEC, staff issued Staff Accounting Bulletin No. 118 to address the application of generally accepted accounting principles in the United States in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. We have recognized provision tax impacts related to the revaluation of deferred tax assets and liabilities and included this amount in our financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provision amounts, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued and actions we may take as a result of the Tax Reform Act. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018.

### **Risks Related to Intellectual Property**

#### ***If we are not able to obtain and enforce patent protection for our technologies or product candidates, development and commercialization of our product candidates may be adversely affected.***

Our success depends in part on our ability to obtain and maintain patents and other forms of intellectual property rights, including in-licenses of intellectual property rights of others, for our product candidates, methods used to manufacture our product candidates and methods for treating patients using our product candidates, as well as our ability to preserve our trade secrets, to prevent third parties from infringing upon our proprietary rights and to operate without infringing upon the proprietary rights of others. As of June 30, 2018, we solely own 25 issued patents and 93 pending patent applications; and, under an exclusive, worldwide license agreement with The Board of Trustees of the Leland Stanford Junior University, the Stanford Agreement, we licensed 59 issued patents with claims relating to methods related to expression of the protein components of our product candidates using our XpressCF Platform. We may not be able to apply for patents on certain aspects of our product candidates in a timely fashion or at all. Further, we may not be able to prosecute all necessary or desirable patent applications, or maintain, enforce and license any patents that may issue from such patent applications, at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. We may not have the right to control the preparation, filing and prosecution of all patent applications that we license from third parties, or to maintain the rights to patents licensed to third parties. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. Our existing issued and granted patents and any future patents we obtain may not be sufficiently broad to prevent others from using our technology or from developing competing products and technology. There is no guarantee that any of our pending patent applications will result in issued or granted patents, that any of our issued or granted patents will not later be found to be invalid or unenforceable or that any issued or granted patents will include claims that are sufficiently broad to cover our product candidates or to provide meaningful protection from our competitors. Moreover, the patent position of biotechnology and biopharmaceutical companies can be highly uncertain because it involves complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our current and future proprietary technology and product candidates are covered by valid and enforceable patents or are effectively maintained as trade secrets. If third parties disclose or misappropriate our proprietary rights, it may materially and adversely affect our position in the market.

## Table of Contents

The U.S. Patent and Trademark Office, or USPTO, and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other provisions during the patent process. There are situations in which noncompliance can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case. The standards applied by the USPTO and foreign patent offices in granting patents are not always applied uniformly or predictably. For example, there is no uniform worldwide policy regarding patentable subject matter or the scope of claims allowable in biotechnology and biopharmaceutical patents. As such, we do not know the degree of future protection that we will have on our proprietary products and technology. While we will endeavor to try to protect our product candidates with intellectual property rights such as patents, as appropriate, the process of obtaining patents is time consuming, expensive and sometimes unpredictable.

Once granted, patents may remain open to opposition, interference, re-examination, post-grant review, *inter partes* review, nullification or derivation action in court or before patent offices or similar proceedings for a given period after allowance or grant, during which time third parties can raise objections against such initial grant. In the course of such proceedings, which may continue for a protracted period of time, the patent owner may be compelled to limit the scope of the allowed or granted claims thus attacked, or may lose the allowed or granted claims altogether. In addition, there can be no assurance that:

- others will not or may not be able to make, use or sell compounds that are the same as or similar to our product candidates but that are not covered by the claims of the patents that we own or license;
- we or our licensors, or our existing or future collaborators are the first to make the inventions covered by each of our issued patents and pending patent applications that we own or license;
- we or our licensors, or our existing or future collaborators are the first to file patent applications covering certain aspects of our inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights;
- a third party may not challenge our patents and, if challenged, a court would hold that our patents are valid, enforceable and infringed;
- any issued patents that we own or have licensed will provide us with any competitive advantages, or will not be challenged by third parties;
- we may develop additional proprietary technologies that are patentable;
- the patents of others will not have a material or adverse effect on our business, financial condition, results of operations and prospects; and
- our competitors do not conduct research and development activities in countries where we do not have enforceable patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets.

If we or our licensors or collaborators fail to maintain the patents and patent applications covering our product candidates, our competitors might be able to enter the market, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.***

In addition to seeking patent protection for certain aspects of our product candidates, we also consider trade secrets, including confidential and unpatented know-how important to the maintenance of our competitive position. We protect trade secrets and confidential and unpatented know-how, in

part, by entering into non-disclosure and confidentiality agreements with parties who have access to such knowledge, such as our employees, corporate collaborators, outside scientific collaborators, CROs, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants that obligate them to maintain confidentiality and assign their inventions to us. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts in the United States and certain foreign jurisdictions are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Other companies or organizations may challenge our or our licensors' patent rights or may assert patent rights that prevent us from developing and commercializing our products.***

Therapeutics in oncology or other disease areas developed in cell-free-based synthesis systems are a relatively new scientific field. We have obtained grants and issuances of, and have obtained a license from a third party on an exclusive basis to, patents related to our proprietary XpressCF Platform. The issued patents and pending patent applications in the United States and in key markets around the world that we own or license claim many different methods, compositions and processes relating to the discovery, development, manufacture and commercialization of antibody-based and other therapeutics.

As the field of antibody-based therapeutics continues to mature, patent applications are being processed by national patent offices around the world. There is uncertainty about which patents will issue and, if they do, as to when, to whom, and with what claims. In addition, third parties may attempt to invalidate our intellectual property rights. Even if our rights are not directly challenged, disputes could lead to the weakening of our intellectual property rights. Our defense against any attempt by third parties to circumvent or invalidate our intellectual property rights could be costly to us, could require significant time and attention of our management and could have a material and adverse effect on our business, financial condition, results of operations and prospects or our ability to successfully compete.

***We may not be able to protect our intellectual property rights throughout the world.***

Obtaining a valid and enforceable issued or granted patent covering our technology in the United States and worldwide can be extremely costly, and our or our licensors' or collaborators' intellectual property rights may not exist in some countries outside the United States or may be less extensive in some countries than in the United States. In jurisdictions where we or our licensors or collaborators have not obtained patent protection, competitors may seek to use our or their technology to develop their own products and further, may export otherwise infringing products to territories where we or they have patent protection, but where it is more difficult to enforce a patent as compared to the United States. Competitor products may compete with our future products in jurisdictions where we do not have issued or granted patents or where our or our licensors' or collaborators' issued or granted patent claims or other intellectual property rights are not sufficient to prevent competitor activities in these jurisdictions. The legal systems of certain countries, particularly certain developing countries, make it difficult to enforce patents and such countries may not recognize other types of intellectual property protection, particularly relating to biopharmaceuticals. This could make it difficult for us or our licensors or collaborators to prevent the infringement of our or their patents or marketing of competing products in violation of our or their proprietary rights generally in certain jurisdictions. Proceedings to enforce our

---

## [Table of Contents](#)

patent rights in foreign jurisdictions could result in substantial cost and divert our and our licensors' or collaborators' efforts and attention from other aspects of our business, could put our and our licensors' or collaborators' patents at risk of being invalidated or interpreted narrowly and our and our licensors' or collaborators' patent applications at risk of not issuing and could provoke third parties to assert claims against us or our licensors or collaborators. We or our licensors or collaborators may not prevail in any lawsuits that we or our licensors or collaborators initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful.

We generally file a provisional patent application first (a priority filing) at the USPTO. An international application under the Patent Cooperation Treaty, PCT, is usually filed within twelve months after the priority filing. Based on the PCT filing, national and regional patent applications may be filed in the United States, EU, Japan, Australia and Canada and, depending on the individual case, also in any or all of, inter alia, Brazil, China, Hong Kong, India, Israel, Mexico, New Zealand, Russia, South Africa, South Korea and other jurisdictions. We have so far not filed for patent protection in all national and regional jurisdictions where such protection may be available. In addition, we may decide to abandon national and regional patent applications before grant. Finally, the grant proceeding of each national or regional patent is an independent proceeding which may lead to situations in which applications might in some jurisdictions be refused by the relevant registration authorities, while granted by others. It is also quite common that depending on the country, various scopes of patent protection may be granted on the same product candidate or technology.

The laws of some jurisdictions do not protect intellectual property rights to the same extent as the laws in the United States, and many companies have encountered significant difficulties in protecting and defending such rights in such jurisdictions. If we or our licensors or collaborators encounter difficulties in protecting, or are otherwise precluded from effectively protecting, the intellectual property rights important for our business in such jurisdictions, the value of these rights may be diminished and we may face additional competition from others in those jurisdictions. Many countries have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of such patent. If we or any of our licensors or collaborators are forced to grant a license to third parties with respect to any patents relevant to our business, our competitive position in the relevant jurisdiction may be impaired and our business, financial condition, results of operations and prospects may be adversely affected.

***We, our licensors or collaborators, or any future strategic partners may need to resort to litigation to protect or enforce our patents or other proprietary rights, all of which could be costly, time consuming, delay or prevent the development and commercialization of our product candidates, or put our patents and other proprietary rights at risk.***

Competitors may infringe our patents or other intellectual property. If we were to initiate legal proceedings against a third party to enforce a patent covering one of our products or our technology, the defendant could counterclaim that our patent is invalid or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, for example, lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that an individual connected with prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. The outcome following legal assertions of invalidity and unenforceability during patent litigation is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity or unenforceability, we would lose at least part, and perhaps all, of the patent protection on one or more of our products or

certain aspects of our platform technology. Such a loss of patent protection could have a material and adverse effect on our business, financial condition, results of operations and prospects. Interference or derivation proceedings provoked by third parties or brought by us or declared by the USPTO may be necessary to determine the priority of inventions with respect to our patents or patent applications. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms or at all, or if a non-exclusive license is offered and our competitors gain access to the same technology. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock. Patents and other intellectual property rights also will not protect our technology if competitors design around our protected technology without legally infringing our patents or other intellectual property rights.

***Intellectual property rights of third parties could adversely affect our ability to commercialize our product candidates, and we, our licensors or collaborators, or any future strategic partners may become subject to third party claims or litigation alleging infringement of patents or other proprietary rights or seeking to invalidate patents or other proprietary rights. We might be required to litigate or obtain licenses from third parties in order to develop or market our product candidates. Such litigation or licenses could be costly or not available on commercially reasonable terms.***

We, our licensors or collaborators, or any future strategic partners may be subject to third-party claims for infringement or misappropriation of patent or other proprietary rights. There is a substantial amount of litigation, both within and outside the United States, involving patent and other intellectual property rights in the biotechnology and pharmaceutical industries, including patent infringement lawsuits, interferences, oppositions and *inter partes* review proceedings before the USPTO, and corresponding foreign patent offices. There are many issued and pending patents that might claim aspects of our product candidates and modifications that we may need to apply to our product candidates. There are also many issued patents that claim antibodies, or portions of antibodies, linkers, or cytotoxic warheads that may be relevant for the products we wish to develop. Thus, it is possible that one or more organizations will hold patent rights to which we will need a license. If those organizations refuse to grant us a license to such patent rights on reasonable terms, we may not be able to market products or perform research and development or other activities covered by these patents which could have a material and adverse effect on our business, financial condition, results of operations and prospects. We are obligated under certain of our license and collaboration agreements to indemnify and hold harmless our licensors or collaborators for damages arising from intellectual property infringement by use. For example, we are obligated under the Stanford Agreement to indemnify and hold harmless Stanford for damages arising from intellectual property infringement by us resulting from exercise of the license from Stanford. If we, our licensors or collaborators, or any future strategic partners are found to infringe a third-party patent or other intellectual property rights, we could be required to pay damages, potentially including treble damages, if we are found to have infringed willfully. In addition, we, our licensors or collaborators, or any future strategic partners may choose to seek, or be required to seek, a license from a third party, which may not be available on acceptable terms, if at all. Even if a license can be obtained on acceptable terms, the rights may be non-exclusive, which could give our competitors access to the same technology or intellectual property rights licensed to us. If we fail to obtain a required license, we or our existing or future collaborators may be unable to effectively market product candidates based on our technology, which could limit our ability to generate revenue or achieve profitability and possibly prevent us from generating revenue sufficient to sustain our operations. In addition, we may find it necessary to pursue claims or initiate lawsuits to protect or enforce our patent or other intellectual property rights. The cost to us in defending or initiating any

---

## [Table of Contents](#)

litigation or other proceeding relating to patent or other proprietary rights, even if resolved in our favor, could be substantial, and litigation could divert our management's attention. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could delay our research and development efforts and limit our ability to continue our operations.

Because the antibody-based therapeutics landscape is still evolving, it is difficult to conclusively assess our freedom to operate without infringing on third-party rights. There are numerous companies that have pending patent applications and issued patents broadly covering antibodies generally, covering antibodies directed against the same targets as, or targets similar to, those we are pursuing, or covering linkers and cytotoxic warheads similar to those that we are using in our product candidates. For example, we are aware of an issued patent, expected to expire in 2023, which has claims relating to methods of treating CD74-positive multiple myeloma with an ADC targeting CD74. If valid and not yet expired when, and if, we receive marketing approval for STRO-001, we may need to seek a license to this patent, which may not be available on commercially reasonable terms or at all. Failure to receive a license could delay commercialization of STRO-001. Our competitive position may suffer if patents issued to third parties or other third-party intellectual property rights cover our products or product candidates or elements thereof, or our manufacture or uses relevant to our development plans. In such cases, we may not be in a position to develop or commercialize products or product candidates until such patents expire or unless we successfully pursue litigation to nullify or invalidate the third-party intellectual property right concerned, or enter into a license agreement with the intellectual property right holder, if available on commercially reasonable terms. There may be issued patents of which we are not aware, held by third parties that, if found to be valid and enforceable, could be alleged to be infringed by our XpressCF Platform and related technologies and product candidates. There also may be pending patent applications of which we are not aware that may result in issued patents, which could be alleged to be infringed by our XpressCF Platform and related technologies and product candidates. If such an infringement claim should be brought and be successful, we may be required to pay substantial damages, including potentially treble damages and attorneys' fees for willful infringement, and we may be forced to abandon our product candidates or seek a license from any patent holders. No assurances can be given that a license will be available on commercially reasonable terms, if at all.

It is also possible that we have failed to identify relevant third-party patents or applications. For example, U.S. applications filed before November 29, 2000 and certain U.S. applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Patent applications in the United States and elsewhere are published approximately 18 months after the earliest filing for which priority is claimed, with such earliest filing date being commonly referred to as the priority date. Therefore, patent applications covering our products or platform technology could have been filed by others without our knowledge. Additionally, pending patent applications that have been published can, subject to certain limitations, be later amended in a manner that could cover our platform technology, our products or the use of our products. Third-party intellectual property right holders may also actively bring infringement claims against us. We cannot guarantee that we will be able to successfully settle or otherwise resolve such infringement claims. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage in or continue costly, unpredictable and time-consuming litigation and may be prevented from or experience substantial delays in marketing our products. Parties making claims against us may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation or administrative proceedings, there is a risk that some of our confidential information could be compromised by disclosure. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have material adverse effect on our ability to

raise additional funds or otherwise have a material adverse effect on our business, results of operations, financial condition and prospects. If we fail in any such dispute, in addition to being forced to pay damages, we may be temporarily or permanently prohibited from commercializing any of our product candidates that are held to be infringing. We might, if possible, also be forced to redesign product candidates so that we no longer infringe the third-party intellectual property rights. Any of these events, even if we were ultimately to prevail, could require us to divert substantial financial and management resources that we would otherwise be able to devote to our business and could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Intellectual property litigation could cause us to spend substantial resources and distract our personnel from their normal responsibilities.***

Litigation or other legal proceedings relating to intellectual property claims, with or without merit, is unpredictable and generally expensive and time consuming and is likely to divert significant resources from our core business, including distracting our technical and management personnel from their normal responsibilities. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Moreover, such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities.

We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources and more mature and developed intellectual property portfolios. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating or from successfully challenging our intellectual property rights. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace.

***If we fail to comply with our obligations under any license, collaboration or other agreements, we may be required to pay damages and could lose intellectual property rights that are necessary for developing and protecting our product candidates or we could lose certain rights to grant sublicenses.***

Our current licenses impose, and any future licenses we enter into are likely to impose, various development, commercialization, funding, milestone, royalty, diligence, sublicensing, insurance, patent prosecution and enforcement and/or other obligations on us. If we breach any of these obligations, or use the intellectual property licensed to us in an unauthorized manner, we may be required to pay damages and the licensor may have the right to terminate the license, which could result in us being unable to develop, manufacture and sell any future products that are covered by the licensed technology or enable a competitor to gain access to the licensed technology. Moreover, our licensors may own or control intellectual property that has not been licensed to us and, as a result, we may be subject to claims, regardless of their merit, that we are infringing or otherwise violating the licensor's rights. In addition, while we cannot determine currently the amount of the royalty obligations we would be required to pay on sales of future products, if any, the amounts may be significant. The amount of our future royalty obligations will depend on the technology and intellectual property we use in products that we successfully develop and commercialize, if any. Therefore, even if we successfully develop and commercialize products, we may be unable to achieve or maintain profitability.

Moreover, disputes may arise regarding intellectual property subject to a licensing agreement, including:

- the scope of rights granted under the license agreement and other interpretation-related issues;
- the extent to which our product candidates, technology and processes infringe on intellectual property of the licensor that is not subject to the licensing agreement;
- the sublicensing of patent and other rights under our collaborative development relationships;
- our diligence obligations under the license agreement and what activities satisfy those diligence obligations;
- the inventorship and ownership of inventions and know-how resulting from the joint creation or use of intellectual property by our licensors and us and our partners; and
- the priority of invention of patented technology.

In addition, the agreements under which we currently license intellectual property or technology from third parties are complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology, or increase what we believe to be our financial or other obligations under the relevant agreement, either of which could have a material adverse effect on our business, financial condition, results of operations, and prospects. Moreover, if disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on commercially acceptable terms, we may be unable to successfully develop and commercialize the affected product candidates, which could have a material adverse effect on our business, financial conditions, results of operations, and prospects.

***We may be subject to claims that we or our employees or consultants have wrongfully used or disclosed alleged trade secrets of our employees' or consultants' former employers or their clients. These claims may be costly to defend and if we do not successfully do so, we may be required to pay monetary damages and may lose valuable intellectual property rights or personnel.***

Many of our employees were previously employed at universities or biotechnology or biopharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper our ability to commercialize, or prevent us from commercializing, our product candidates, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

***Patent terms may be inadequate to protect our competitive position on our product candidates for an adequate amount of time.***

Patents have a limited lifespan. In the United States, if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest U.S. non-provisional filing date. Various extensions may be available, but the life of a patent, and the protection it affords, is limited. Even if patents covering our product candidates are obtained, once the patent life has expired, we may be open to competition from competitive products, including generics or biosimilars. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents



protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

***Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.***

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will be due to be paid to the USPTO and various governmental patent agencies outside of the United States in several stages over the lifetime of the patents and/or applications. We have systems in place to remind us to pay these fees, and we employ an outside firm and/or rely on our outside counsel to pay these fees due to non-U.S. patent agencies. The USPTO and various non-U.S. governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply, and in many cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. However, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, our competitors might be able to enter the market and this circumstance would have a material adverse effect on our business.

***Changes in U.S. patent and ex-U.S. patent laws could diminish the value of patents in general, thereby impairing our ability to protect our products.***

Changes in either the patent laws or interpretation of the patent laws in the United States or in other ex-U.S. jurisdictions could increase the uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of issued patents. In the United States, numerous recent changes to the patent laws and proposed changes to the rules of the USPTO that may have a significant impact on our ability to protect our technology and enforce our intellectual property rights. For example, the America Invents Act, enacted within the last several years involves significant changes in patent legislation. The U.S. Supreme Court has ruled on several patent cases in recent years, some of which cases either narrow the scope of patent protection available in certain circumstances or weaken the rights of patent owners in certain situations. For example, the decision by the U.S. Supreme Court in *Association for Molecular Pathology v. Myriad Genetics, Inc.* precludes a claim to a nucleic acid having a stated nucleotide sequence that is identical to a sequence found in nature and unmodified. We currently are not aware of an immediate impact of this decision on our patents or patent applications because we are developing product candidates that contain modifications that we believe are not found in nature. However, this decision has yet to be clearly interpreted by courts and by the USPTO. We cannot assure you that the interpretations of this decision or subsequent rulings will not adversely impact our patents or patent applications. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on decisions by the U.S. Congress, the federal courts and the USPTO, and similar legislative and regulatory bodies in other countries in which may pursue patent protection, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future.

***If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.***

Our trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these

trademarks and trade names or may be forced to stop using these names, which we need for name recognition by potential partners or customers in our markets of interest. If we are unable to establish name recognition based on our trademarks and trade names, we may not be able to compete effectively which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

#### Risks Related to Government Regulation

***Clinical development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results. If we are unable to develop, obtain regulatory approval for and commercialize our product candidates, or experience significant delays in doing so, our business will be materially harmed.***

All of our product candidates are in preclinical or early clinical development and their risk of failure is high. It is impossible to predict when or if any of our product candidates will receive regulatory approval. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical studies and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the development process. The results of preclinical studies and early clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits, despite having progressed through preclinical studies and initial clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or safety profiles, notwithstanding promising results in earlier trials.

We commenced a Phase 1 clinical trial of STRO-001, an ADC directed against CD74, for certain cancers in April 2018, and we plan to submit an IND for STRO-002, an ADC directed against Folate Receptor alpha, for certain cancers to the FDA in the fourth quarter of 2018. Commencing our future clinical trials is subject to finalizing the trial design and submitting an IND or similar submission with the FDA or similar foreign regulatory authority. Even after we submit our IND or comparable submissions in other jurisdictions, the FDA or other regulatory authorities could disagree that we have satisfied their requirements to commence our clinical trials or disagree with our study design, which may require us to complete additional preclinical studies or amend our protocols or impose stricter conditions on the commencement of clinical trials.

We or our collaborators may experience delays in completing our preclinical studies and initiating or completing clinical trials of our product candidates. We do not know whether planned preclinical studies and clinical trials will be completed on schedule or at all, or whether planned clinical trials will begin on time, need to be redesigned, have patients enrolled on time or be completed on schedule, if at all. We or our collaborators may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval to commercialize our product candidates. Our development programs may be delayed for a variety of reasons, including delays related to:

- the FDA or other regulatory authorities requiring us or our collaborators to submit additional data or imposing other requirements before permitting us to initiate a clinical trial;
- obtaining regulatory approval to commence a clinical trial;
- the FDA or other regulatory authorities placing a clinical trial on clinical hold;
- reaching agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and clinical trial sites;

---

## Table of Contents

- clinical trials of our product candidates producing negative or inconclusive results, and we or our collaborators deciding, or regulators requiring us, to conduct additional clinical trials, including testing in more subjects, or abandoning product development programs;
- third-party contractors used by us or our collaborators failing to comply with regulatory requirements or meet their contractual obligations in a timely manner, or at all;
- obtaining institutional review board, or IRB, approval at each clinical trial site;
- recruiting suitable patients to participate in a clinical trial;
- developing and validating any companion diagnostic that would be used in a clinical trial;
- cost of clinical trials being greater than anticipated;
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates being insufficient or inadequate;
- having patients complete a clinical trial or return for post-treatment follow-up;
- clinical trial sites deviating from trial protocol or dropping out of a trial;
- adding new clinical trial sites; or
- manufacturing sufficient quantities of our product candidates for use in clinical trials.

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the product candidate being studied in relation to other available therapies, including any new drugs or therapeutic biologics that may be approved for the indications being investigated by us. Furthermore, we expect to rely on our collaborators, CROs and clinical trial sites to ensure the proper and timely conduct of our clinical trials and, while we expect to enter into agreements governing their committed activities, we have limited influence over their actual performance.

We could encounter delays if prescribing physicians encounter unresolved ethical issues associated with enrolling patients in clinical trials of our product candidates in lieu of prescribing existing treatments that have established safety and efficacy profiles.

Further, a clinical trial may be suspended or terminated by us, our collaborators, the IRBs of the institutions in which such trials are being conducted, the Data Safety Monitoring Board for such trial or placed on clinical hold by the FDA or other regulatory authorities due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug or therapeutic biologic, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. If we experience delays in the completion of, or termination of, any clinical trial of our product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate product revenues from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product development and approval process and jeopardize our ability to commence product sales and generate revenues. Any of these occurrences could materially and adversely affect our business, financial condition, results of operations and prospects. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates.

***We and/or our collaborators may be unable to obtain, or may be delayed in obtaining, U.S. or foreign regulatory approval and, as a result, unable to commercialize our product candidates.***

Our product candidates are subject to extensive governmental regulations relating to, among other things, research, testing, development, manufacturing, safety, efficacy, approval, recordkeeping, reporting, labeling, storage, packaging, advertising and promotion, pricing, marketing and distribution of drugs and therapeutic biologics. Rigorous preclinical testing and clinical trials and an extensive regulatory approval process are required to be completed successfully in the United States and in many foreign jurisdictions before a new drug or therapeutic biologic can be marketed. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. It is possible that none of the product candidates we may develop, either alone or with our collaborators, will obtain the regulatory approvals necessary for us or our existing or future collaborators to begin selling them.

Although our employees have experience in conducting and managing clinical trials from prior employment at other companies, we, as a company, have no prior experience in conducting and managing the clinical trials necessary to obtain regulatory approvals, including approval by the FDA. The time required to obtain FDA and other approvals is unpredictable but typically takes many years following the commencement of clinical trials, depending upon the type, complexity and novelty of the product candidate. The standards that the FDA and its foreign counterparts use when regulating us require judgment and can change, which makes it difficult to predict with certainty their application. Any analysis we perform of data from preclinical and clinical activities is subject to confirmation and interpretation by regulatory authorities, which could delay, limit or prevent regulatory approval. We or our collaborators may also encounter unexpected delays or increased costs due to new government regulations, for example, from future legislation or administrative action, or from changes in FDA policy during the period of product development, clinical trials and FDA regulatory review. It is impossible to predict whether legislative changes will be enacted, or whether FDA or foreign regulations, guidance or interpretations will be changed, or the impact of such changes, if any.

Given that the product candidates we are developing, either alone or with our collaborators, represent a new approach to the manufacturing and type of therapeutic biologics, the FDA and its foreign counterparts have not yet established any definitive policies, practices or guidelines in relation to these product candidates. Moreover, the FDA may respond to any BLA, that we may submit by defining requirements that we do not anticipate. Such responses could delay clinical development of our product candidates. In addition, because there may be approved treatments for some of the diseases for which we may seek approval, in order to receive regulatory approval, we may need to demonstrate through clinical trials that the product candidates we develop to treat these diseases, if any, are not only safe and effective, but safer or more effective than existing products. Furthermore, in recent years, there has been increased public and political pressure on the FDA with respect to the approval process for new drugs and therapeutic biologics, and FDA standards, especially regarding product safety, appear to have become more stringent.

Any delay or failure in obtaining required approvals could have a material and adverse effect on our ability to generate revenues from the particular product candidate for which we are seeking approval. Furthermore, any regulatory approval to market a product may be subject to limitations on the approved uses for which we may market the product or on the labeling or other restrictions. In addition, the FDA has the authority to require a risk evaluation and mitigation strategies, or REMS, plan as part of a BLA or after approval, which may impose further requirements or restrictions on the distribution or use of an approved biologic, such as limiting prescribing to certain physicians or medical centers that have undergone specialized training, limiting treatment to patients who meet certain safe-use criteria and requiring treated patients to enroll in a registry. These limitations and restrictions may limit the size of the market for the product and affect reimbursement by third-party payors.

We are also subject to numerous foreign regulatory requirements governing, among other things, the conduct of clinical trials, manufacturing and marketing authorization, pricing and third-party reimbursement. The foreign regulatory approval process varies among countries and may include all of the risks associated with FDA approval process described above, as well as risks attributable to the satisfaction of local regulations in foreign jurisdictions. Moreover, the time required to obtain approval may differ from that required to obtain FDA approval. FDA approval does not ensure approval by regulatory authorities outside the United States and vice versa. Any delay or failure to obtain U.S. or foreign regulatory approval for a product candidate could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Delays in obtaining regulatory approval of our manufacturing process may delay or disrupt our commercialization efforts. To date, no product using a cell-free manufacturing process in the United States has received approval from the FDA.***

Before we can begin to commercially manufacture our product candidates in third-party or our own facilities, we must obtain regulatory approval from the FDA for a BLA that describes in detail the chemistry, manufacturing, and controls for the product. A manufacturing authorization must also be obtained from the appropriate EU regulatory authorities. The timeframe required to obtain such approval or authorization is uncertain. In addition, we must pass a pre-approval inspection of our manufacturing facility by the FDA before any of our product candidates can obtain marketing approval, if ever. In order to obtain approval, we will need to ensure that all of our processes, methods and equipment are compliant with cGMP, and perform extensive audits of vendors, contract laboratories and suppliers. If any of our vendors, contract laboratories or suppliers is found to be out of compliance with cGMP, we may experience delays or disruptions in manufacturing while we work with these third parties to remedy the violation or while we work to identify suitable replacement vendors. The cGMP requirements govern quality control of the manufacturing process and documentation policies and procedures. In complying with cGMP, we will be obligated to expend time, money and effort in production, record keeping and quality control to assure that the product meets applicable specifications and other requirements. If we fail to comply with these requirements, we would be subject to possible regulatory action and may not be permitted to sell any products that we may develop.

***Even if we receive regulatory approval for any of our product candidates, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense. Additionally, our product candidates, if approved, could be subject to labeling and other restrictions and market withdrawal. We may also be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.***

Any regulatory approvals that we or our existing or future collaborators obtain for our product candidates may also be subject to limitations on the approved indicated uses for which a product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the product candidate.

In addition, if the FDA or a comparable foreign regulatory authority approves any of our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, import, export, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. The FDA has significant post-market authority, including the authority to require labeling changes based on new safety information and to require post-market studies or clinical trials to evaluate safety risks related to the use of a product or to require withdrawal of the product from the market. The FDA also has the authority to require a REMS plan after approval, which may impose further requirements or restrictions on the distribution or use of an

---

## Table of Contents

approved drug or therapeutic biologic. The manufacturing facilities we use to make a future product, if any, will also be subject to periodic review and inspection by the FDA and other regulatory agencies, including for continued compliance with cGMP requirements. The discovery of any new or previously unknown problems with our third-party manufacturers, manufacturing processes or facilities may result in restrictions on the product, manufacturer or facility, including withdrawal of the product from the market. If we rely on third-party manufacturers, we will not have control over compliance with applicable rules and regulations by such manufacturers. Any product promotion and advertising will also be subject to regulatory requirements and continuing regulatory review. If we or our existing or future collaborators, manufacturers or service providers fail to comply with applicable continuing regulatory requirements in the United States or foreign jurisdictions in which we seek to market our products, we or they may be subject to, among other things, fines, warning letters, holds on clinical trials, delay of approval or refusal by the FDA or similar foreign regulatory bodies to approve pending applications or supplements to approved applications, suspension or withdrawal of regulatory approval, product recalls and seizures, administrative detention of products, refusal to permit the import or export of products, operating restrictions, injunction, civil penalties and criminal prosecution.

Subsequent discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market or voluntary or mandatory product recalls;
- fines, warning or untitled letters or holds on clinical trials;
- refusal by the FDA to approve pending applications or supplements to approved applications filed by us or our strategic partners;
- suspension or revocation of product license approvals;
- product seizure or detention or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

The FDA policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. For example, in December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of drugs and biologics and to spur innovation, but its ultimate implementation is unclear. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would adversely affect our business.

We also cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative or executive action, either in the United States or abroad. For example, certain policies of the current U.S. presidential administration may impact our business and industry. Namely, the current U.S. presidential administration has taken several executive actions, including the issuance of a number of executive orders, that could impose significant burdens on, or otherwise materially delay, the FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. Notably, on January 23, 2017, the current U.S. presidential administration ordered a hiring freeze for all executive departments and agencies, including the FDA, which prohibited the FDA from filling employee vacancies or creating new positions. Under the terms of the executive order, the freeze was to remain in effect until implementation of a plan recommended by the Director for the Office of Management and Budget, or OMB, in consultation with the Director of the Office of Personnel Management, to reduce the size of the federal workforce through attrition. While the general

hiring freeze was lifted on April 12, 2017, the FDA remained under a hiring freeze until May 25, 2017. However, the fiscal 2018 budget proposal for the FDA still calls for overall reductions in the FDA workforce, mostly through attrition. We believe an under-staffed FDA could result in delays in the FDA's responsiveness or in its ability to review submissions or applications, issue regulations or guidance, or implement or enforce regulatory requirements in a timely fashion or at all. Moreover, on January 30, 2017, the current U.S. presidential administration issued an executive order, applicable to all executive agencies, including the FDA, which requires that for each notice of proposed rulemaking or final regulation to be issued in fiscal year 2017, the agency shall identify at least two existing regulations to be repealed, unless prohibited by law. These requirements are referred to as the "two-for-one" provisions. This executive order includes a budget neutrality provision that requires the total incremental cost of all new regulations in the 2017 fiscal year, including repealed regulations, to be no greater than zero, except in limited circumstances. For fiscal years 2018 and beyond, the executive order requires agencies to identify regulations to offset any incremental cost of a new regulation and approximate the total costs or savings associated with each new regulation or repealed regulation. In interim guidance issued by the Office of Information and Regulatory Affairs within OMB on February 2, 2017, the administration indicates that the "two-for-one" provisions may apply not only to agency regulations, but also to significant agency guidance documents. It is difficult to predict how these requirements will be implemented, and the extent to which they will impact the FDA's ability to exercise its regulatory authority. If these executive actions impose constraints on the FDA's ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

***We may face difficulties from healthcare legislative reform measures.***

Existing regulatory policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability.

In the United States, there have been and continue to be a number of legislative initiatives to contain healthcare costs. For example, in March 2010, the Patient Protection and Affordable Care Act, as amended by the Healthcare and Education Reconciliation Act, or together, the ACA, was enacted, which substantially changed the way healthcare is financed by both governmental and private insurers, and significantly impacts the U.S. pharmaceutical industry. The ACA, among other things, (i) subjected therapeutic biologics to potential competition by lower-cost biosimilars by creating a licensure framework for follow on biologic products, (ii) proscribed a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs and therapeutic biologics that are inhaled, infused, instilled, implanted or injected, (iii) increased the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and extended the rebate program to individuals enrolled in Medicaid managed care organizations, (iv) established annual fees and taxes on manufacturers of certain branded prescription drugs and therapeutic biologics, (v) established a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs and therapeutic biologics to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs and therapeutic biologics to be covered under Medicare Part D, (vi) expanded eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for individuals with income at or below 133% of the federal poverty level, thereby potentially increasing manufacturers' Medicaid rebate liability, (vii) expanded the entities eligible for discounts under the Public Health program (viii) created a new Patient-Centered Outcomes Research Institute to oversee,

---

## [Table of Contents](#)

identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research and (ix) established a Center for Medicare Innovation at the Centers for Medicare & Medicaid Services, or CMS, to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending.

The current U.S. presidential administration and U.S. Congress have sought, and we expect they will continue to, seek to modify, repeal, or otherwise invalidate all, or certain provisions of, the ACA. Since January 2017, the current U.S. presidential administration has issued two executive orders and other directives designed to delay the implementation of certain provisions of the ACA or otherwise circumvent some of the requirements for health insurance mandated by the ACA. For example, on October 12, 2017, the current U.S. presidential administration issued an executive order that expands the use of association health plans and allows anyone to purchase short-term health plans that provide temporary, limited insurance. This executive order also calls for the halt of federal payments to health insurers for cost-sharing reductions previously available to lower-income Americans to afford coverage. There is still uncertainty with respect to the impact this executive order could have on coverage and reimbursement for healthcare items and services covered by plans that were authorized by the ACA. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the ACA. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the ACA have been signed into law. The Tax Reform Act, among other things, includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the ACA 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, the current U.S. presidential administration signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain ACA-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 ACA, 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”. More recently, in July 2018, CMS published a final rule permitting further collections and payments to and from certain ACA qualified health plans and health insurance issuers under the ACA risk adjustment program in response to the outcome of federal district court litigation regarding the method CMS uses to determine this risk adjustment. There is still uncertainty with respect to the impact the current U.S. presidential administration and Congress may have, if any, and any changes will likely take time to unfold, and could have an impact on coverage and reimbursement for healthcare items and services covered by plans that were authorized by the ACA. However, we cannot predict the ultimate content, timing or effect of any healthcare reform legislation or the impact of potential legislation on us.

In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted to reduce healthcare expenditures. U.S. federal government agencies also currently face potentially significant spending reductions, which may further impact healthcare expenditures. On August 2, 2011, the Budget Control Act of 2011 among other things, created measures for spending reductions by Congress. A joint select committee on deficit reduction, tasked with recommending a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation’s automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers of 2% per fiscal year. These reductions went into effect on April 1, 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. Moreover, on January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, further reduced Medicare payments to several types of providers, including hospitals, imaging centers and cancer treatment centers, and increased



---

## [Table of Contents](#)

the statute of limitations period for the government to recover overpayments to providers from three to five years. If federal spending is further reduced, anticipated budgetary shortfalls may also impact the ability of relevant agencies, such as the FDA or the National Institutes of Health to continue to function at current levels. Amounts allocated to federal grants and contracts may be reduced or eliminated. These reductions may also impact the ability of relevant agencies to timely review and approve research and development, manufacturing, and marketing activities, which may delay our ability to develop, market and sell any products we may develop.

Moreover, payment methodologies, including payment for companion diagnostics, may be subject to changes in healthcare legislation and regulatory initiatives. For example, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. While the MMA only applies to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors. In addition, CMS has begun bundling the Medicare payments for certain laboratory tests ordered while a patient received services in a hospital outpatient setting and, beginning in 2018, CMS will pay for clinical laboratory services based on a weighted average of reported prices that private payors, Medicare Advantage plans, and Medicaid Managed Care plans pay for laboratory services. Further, on March 16, 2018, CMS finalized its National Coverage Determination, or NCD, for certain diagnostic laboratory tests using next generation sequencing that are approved by the FDA as a companion *in vitro* diagnostic and used in a cancer with an FDA-approved companion diagnostic indication. Under the NCD, diagnostic tests that gain FDA approval or clearance as an *in vitro* companion diagnostic will automatically receive full coverage and be available for patients with recurrent, metastatic relapsed, refractory or stages III and IV cancer. Additionally, the NCD extended coverage to repeat testing when the patient has a new primary diagnosis of cancer.

Recently there has been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drug products. At the federal level, the current U.S. presidential 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. Additionally, on May 11, 2018, the current U.S. presidential administration laid out the administration's "Blueprint" to reduce the cost of prescription medications while preserving innovation and cures. While the Department of Health and Human Services, or HHS, is soliciting feedback on some of these measures, other actions may be immediately implemented by HHS under existing authority. Although a number of these, and other potential, proposals will require authorization through additional legislation to become effective, Congress and the current U.S. presidential 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 that additional state and federal healthcare reform measures will be

adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our product candidates or companion diagnostics or additional pricing pressures.

Additionally, on May 30, 2018, the Trickett Wendler, Frank Mongiello, Jordan McLinn, and Matthew Bellina Right to Try Act of 2017 was signed into law. The law, among other things, provides a federal framework for certain patients to access certain investigational new drug products that have completed a Phase I clinical trial and that are undergoing investigation for FDA approval. Under certain circumstances, eligible patients can seek treatment without enrolling in clinical trials and without obtaining FDA authorization under an FDA expanded access program.

We expect that the ACA, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any approved product. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our products.

***Our operations and relationships with healthcare providers, healthcare organizations, customers and third-party payors will be subject to applicable anti-bribery, anti-kickback, fraud and abuse, transparency and other healthcare laws and regulations, which could expose us to, among other things, enforcement actions, criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings.***

Our current and future arrangements with healthcare providers, healthcare organizations, third-party payors and customers expose us to broadly applicable anti-bribery, fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we research, market, sell and distribute our product candidates. In addition, we may be subject to patient data privacy and security regulation by the U.S. federal government and the states and the foreign governments in which we conduct our business. Restrictions under applicable federal and state anti-bribery and healthcare laws and regulations, include the following:

- the federal Anti-Kickback Statute, which prohibits, among other things, individuals and entities from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under a federal and state healthcare program such as Medicare and Medicaid. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;
- the federal criminal and civil false claims and civil monetary penalties laws, including the federal False Claims Act, which can be imposed through civil whistleblower or qui tam actions against individuals or entities, prohibits, among other things, knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent, knowingly making, using or causing to be made or used, a false record or statement material to a false or fraudulent claim, or from knowingly making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government. In addition, certain marketing practices, including off-label promotion, may also violate false claims laws. Moreover, the government may assert that a claim including items and services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act;
- HIPAA, which imposes criminal and civil liability, prohibits, among other things, knowingly and willfully executing, or attempting to execute a scheme to defraud any healthcare benefit

---

## Table of Contents

program, or knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services; similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;

- HIPAA, as amended by HITECH, which impose obligations on certain healthcare providers, health plans, and healthcare clearinghouses, known as covered entities, as well as their business associates that perform certain services involving the storage, use or disclosure of individually identifiable health information, including mandatory contractual terms, with respect to safeguarding the privacy, security, and transmission of individually identifiable health information, and require notification to affected individuals and regulatory authorities of certain breaches of security of individually identifiable health information;
- the federal legislation commonly referred to as Physician Payments Sunshine Act, enacted as part of the ACA, and its implementing regulations, which requires certain manufacturers of covered drugs, devices, biologics and medical supplies that are reimbursable under Medicare, Medicaid, or the Children's Health Insurance Program, with certain exceptions, to report annually to CMS information related to certain payments and other transfers of value to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, as well as ownership and investment interests held by the physicians described above and their immediate family members, with the information made publicly available on a searchable website;
- the U.S. Foreign Corrupt Practices Act of 1977, as amended, which prohibits, among other things, U.S. companies and their employees and agents from authorizing, promising, offering, or providing, directly or indirectly, corrupt or improper payments or anything else of value to foreign government officials, employees of public international organizations and foreign government owned or affiliated entities, candidates for foreign political office, and foreign political parties or officials thereof;
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, that may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers; and
- certain state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government in addition to requiring drug and therapeutic biologics manufacturers to report information related to payments to physicians and other healthcare providers or marketing expenditures and pricing information, state and local laws that require the registration of pharmaceutical sales representatives, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

If we or our collaborators, manufacturers or service providers fail to comply with applicable federal, state or foreign laws or regulations, we could be subject to enforcement actions, which could affect our ability to develop, market and sell our products successfully and could harm our reputation and lead to reduced acceptance of our products by the market. These enforcement actions include, among others:

- exclusion from participation in government-funded healthcare programs; and
- exclusion from eligibility for the award of government contracts for our products.

Efforts to ensure that our current and future business arrangements with third parties comply with applicable healthcare laws and regulations could involve substantial costs. It is possible that governmental authorities will conclude that our business practices do not comply with current or future statutes, regulations, agency guidance or case law involving applicable fraud and abuse or other

healthcare laws and regulations. If our operations are found to be in violation of any such requirements, we may be subject to significant penalties, including civil, criminal and administrative penalties, damages, fines, disgorgement, imprisonment, the curtailment or restructuring of our operations, loss of eligibility to obtain approvals from the FDA, exclusion from participation in government contracting, healthcare reimbursement or other government programs, including Medicare and Medicaid, integrity oversight and reporting obligations, or reputational harm, any of which could adversely affect our financial results. Although effective compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, these risks cannot be entirely eliminated. Any action against us for an alleged or suspected violation could cause us to incur significant legal expenses and could divert our management's attention from the operation of our business, even if our defense is successful. In addition, achieving and sustaining compliance with applicable laws and regulations may be costly to us in terms of money, time and resources.

***Even if we are able to commercialize any product candidate, such product candidate may become subject to unfavorable pricing regulations or third-party coverage and reimbursement policies, which would harm our business.***

The regulations that govern regulatory approvals, pricing and reimbursement for new drugs and therapeutic biologics vary widely from country to country. Some countries require approval of the sale price of a drug or therapeutic biologic before it can be marketed. In many countries, the pricing review period begins after marketing approval is granted. In some foreign markets, prescription biopharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain regulatory approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods and negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain regulatory approval.

Our ability to commercialize any products successfully also will depend in part on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government authorities, private health insurers and other organizations. Even if we succeed in bringing one or more products to the market, these products may not be considered cost-effective, and the amount reimbursed for any products may be insufficient to allow us to sell our products on a competitive basis. Because our programs are in the early stages of development, we are unable at this time to determine their cost effectiveness or the likely level or method of coverage and reimbursement. Increasingly, the third-party payors who reimburse patients or healthcare providers, such as government and private insurance plans, are requiring that drug companies provide them with predetermined discounts from list prices, and are seeking to reduce the prices charged or the amounts reimbursed for biopharmaceutical products. If the price we are able to charge for any products we develop, or the coverage and reimbursement provided for such products, is inadequate in light of our development and other costs, our return on investment could be affected adversely.

There may be significant delays in obtaining reimbursement for newly approved drugs or therapeutic biologics, and coverage may be more limited than the purposes for which the drug or therapeutic biologic is approved by the FDA or similar foreign regulatory authorities. Moreover, eligibility for reimbursement does not imply that any drug or therapeutic biologic will be reimbursed in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution.

Interim reimbursement levels for new drugs or therapeutic biologics, if applicable, may also be insufficient to cover our costs and may not be made permanent. Reimbursement rates may be based on payments allowed for lower cost drugs or therapeutic biologics that are already reimbursed, may be incorporated into existing payments for other services and may reflect budgetary constraints or

imperfections in Medicare data. Net prices for drugs or therapeutic biologics may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs or therapeutic biologics from countries where they may be sold at lower prices than in the United States. Further, no uniform policy for coverage and reimbursement exists in the United States, and coverage and reimbursement can differ significantly from payor to payor. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement rates, but also have their own methods and approval process apart from Medicare determinations. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for new drugs or therapeutic biologics that we develop and for which we obtain regulatory approval could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***If in the future we are unable to establish U.S. or global sales and marketing capabilities or enter into agreements with third parties to sell and market our product candidates, we may not be successful in commercializing our product candidates if they are approved and we may not be able to generate any revenue.***

We currently do not have a marketing or sales team for the marketing, sales and distribution of any of our product candidates that are able to obtain regulatory approval. To commercialize any product candidates after approval, we must build on a territory-by-territory basis marketing, sales, distribution, managerial and other non-technical capabilities or make arrangements with third parties to perform these services, and we may not be successful in doing so. If our product candidates receive regulatory approval, we may decide to establish an internal sales or marketing team with technical expertise and supporting distribution capabilities to commercialize our product candidates, which will be expensive and time consuming and will require significant attention of our executive officers to manage. For example, some state and local jurisdictions have licensing and continuing education requirements for pharmaceutical sales representatives, which requires time and financial resources. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of any of our product candidates that we obtain approval to market.

With respect to the commercialization of all or certain of our product candidates, we may choose to collaborate, either globally or on a territory-by-territory basis, with third parties that have direct sales forces and established distribution systems, either to augment our own sales force and distribution systems or in lieu of our own sales force and distribution systems. If we are unable to enter into such arrangements when needed on acceptable terms, or at all, we may not be able to successfully commercialize any of our product candidates that receive regulatory approval or any such commercialization may experience delays or limitations. If we are not successful in commercializing our product candidates, either on our own or through collaborations with one or more third parties, our future product revenue will suffer and we may incur significant additional losses.

***Our product candidates for which we intend to seek approval as biologic products may face competition sooner than anticipated.***

With the enactment of the Biologics Price Competition and Innovation Act of 2009, or BPCIA, an abbreviated pathway for the approval of biosimilar and interchangeable biological products was created. The abbreviated regulatory pathway establishes legal authority for the FDA to review and approve biosimilar biologics, including the possible designation of a biosimilar as interchangeable based on its similarity to an existing reference product. Under the BPCIA, an application for a biosimilar product cannot be approved by the FDA until 12 years after the original branded product is approved under a BLA. On March 6, 2015, the FDA approved the first biosimilar product under the BPCIA. However, the law is complex and is still being interpreted and implemented by the FDA. As a result, its ultimate impact, implementation, and meaning are subject to uncertainty. While it is uncertain when the processes intended to implement BPCIA may be fully adopted by the FDA, any such processes could have a material adverse effect on the future commercial prospects for our biological products.

We believe that if any of our product candidates are approved as a biological product under a BLA, it should qualify for the 12-year period of exclusivity. However, there is a risk that the FDA will not consider any of our product candidates to be reference products for competing products, potentially creating the opportunity for biosimilar competition sooner than anticipated. Additionally, this period of regulatory exclusivity does not apply to companies pursuing regulatory approval via their own traditional BLA, rather than via the abbreviated pathway. Moreover, the extent to which a biosimilar, once approved, will be substituted for any one of our reference products that may be approved in a way that is similar to traditional generic substitution for non-biological products is not yet clear, and will depend on a number of marketplace and regulatory factors that are still developing.

***If any of our product candidates receives marketing approval and we or others later identify undesirable side effects caused by the product candidate, our ability to market and derive revenue from the product candidates could be compromised.***

Undesirable side effects caused by our product candidates could cause regulatory authorities to interrupt, delay or halt clinical trials and could result in more restrictive labeling or the delay or denial of regulatory approval by the FDA or other regulatory authorities. We have only recently initiated our first clinical trial for the first of our product candidates. Given its nature as an ADC, it is likely that there may be side effects associated with its use. Results of our clinical trials could reveal a high and unacceptable severity and prevalence of side effects. In such an event, our clinical trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us to cease further development of or deny approval of our product candidates for any or all targeted indications. Such side effects could also affect patient recruitment or the ability of enrolled patients to complete the clinical trial or result in potential product liability claims. Any of these occurrences may materially and adversely affect our business, financial condition, results of operations and prospects.

Further, clinical trials by their nature utilize a sample of the potential patient population. With a limited number of patients and limited duration of exposure, rare and severe side effects of our product candidates may only be uncovered with a significantly larger number of patients exposed to the product candidate.

In the event that any of our product candidates receive regulatory approval and we or others identify undesirable side effects caused by one of our products, any of the following adverse events could occur:

- regulatory authorities may withdraw their approval of the product or seize the product;
- we may be required to recall the product or change the way the product is administered to patients;
- additional restrictions may be imposed on the marketing of the particular product or the manufacturing processes for the product or any component thereof;
- we may be subject to fines, injunctions or the imposition of civil or criminal penalties;
- regulatory authorities may require the addition of labeling statements, such as a black boxed warning or a contraindication;
- we may be required to create a Medication Guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients;
- the product may become less competitive; and
- our reputation may suffer.

Any of these occurrences could have a material and adverse effect on our business, financial condition, results of operations and prospects.

***If we decide to pursue a Fast Track Designation by the FDA, it may not lead to a faster development or regulatory review or approval process.***

We may seek Fast Track Designation for one or more of our product candidates. If a drug or biologic is intended for the treatment of a serious or life-threatening condition and the drug or biologic demonstrates the potential to address unmet medical needs for this condition, the product sponsor may apply for FDA Fast Track Designation. The FDA has broad discretion whether or not to grant this designation, so even if we believe a particular product candidate is eligible for this designation, we cannot assure you that the FDA would decide to grant it. Even if we do receive Fast Track Designation, we may not experience a faster development process, review or approval compared to conventional FDA procedures. The FDA may withdraw Fast Track Designation if it believes that the designation is no longer supported by data from our clinical development program.

***If we decide to seek Orphan Drug Designation for some of our product candidates, we may be unsuccessful or may be unable to maintain the benefits associated with Orphan Drug Designation, including the potential for supplemental market exclusivity.***

As part of our business strategy, we may seek Orphan Drug Designation for one or more of our product candidates, and we may be unsuccessful. Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs and therapeutic biologics for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a drug or therapeutic biologic as an orphan drug if it is a drug or therapeutic biologic intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals in the United States, or a patient population greater than 200,000 in the United States where there is no reasonable expectation that the cost of developing the drug or therapeutic biologic will be recovered from sales in the United States. In the United States, Orphan Drug Designation entitles a party to financial incentives such as opportunities for grant funding toward clinical trial costs, tax advantages and user fee waivers. In addition, if a product that has Orphan Drug Designation subsequently receives the first FDA approval for the disease for which it has such designation, the product is entitled to orphan drug exclusivity, which means that the FDA may not approve any other applications, including a full BLA, to market the same product for the same indication for seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan drug exclusivity or where the manufacturer is unable to assure sufficient product quantity.

Even if we obtain Orphan Drug Designation for our product candidates in specific indications, we may not be the first to obtain marketing approval of these product candidates for the orphan-designated indication due to the uncertainties associated with developing pharmaceutical products. In addition, exclusive marketing rights in the United States may be limited if we seek approval for an indication broader than the orphan-designated indication or may be lost if the FDA later determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantities of the product to meet the needs of patients with the rare disease or condition. Further, even if we obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs or therapeutic biologics with different principal molecular structural features can be approved for the same condition. Even after an orphan product is approved, the FDA can subsequently approve the same drug or therapeutic biologic with the same principal molecular structural features for the same condition if the FDA concludes that the later drug or therapeutic biologic is safer, more effective or makes a major contribution to patient care. Orphan Drug Designation neither shortens the development time or regulatory review time of a drug or therapeutic biologic nor gives the drug or therapeutic biologic any advantage in the regulatory review or approval process. In addition, while we may seek Orphan Drug Designation for our product candidates, we may never receive such designations.

The recent tax reform legislation, which was signed into law on December 22, 2017 reduced the amount of the qualified clinical research costs for a designated orphan product that a sponsor may

claim as a credit from 50% to 25%. Thus, further limiting the advantage and may impact our future business strategy of seeking the Orphan Drug Designation.

### **Risks Related to Our Common Stock and This Offering**

***Our quarterly operating results may fluctuate significantly or may fall below the expectations of investors or securities analysts, each of which may cause our stock price to fluctuate or decline.***

We expect our operating results to be subject to quarterly fluctuations. Our net loss and other operating results will be affected by numerous factors, including:

- variations in the level of expense related to the ongoing development of our XpressCF Platform, our product candidates or future development programs;
- results of preclinical and clinical trials, or the addition or termination of clinical trials or funding support by us, or existing or future collaborators or licensing partners;
- our execution of any additional collaboration, licensing or similar arrangements, and the timing of payments we may make or receive under existing or future arrangements or the termination or modification of any such existing or future arrangements;
- any intellectual property infringement lawsuit or opposition, interference or cancellation proceeding in which we may become involved;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- if any of our product candidates receives regulatory approval, the terms of such approval and market acceptance and demand for such product candidates;
- regulatory developments affecting our product candidates or those of our competitors; and
- changes in general market and economic conditions.

If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our common stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

***The market price of our stock may be volatile, and you could lose all or part of your investment.***

The trading price of our common stock following this offering and the concurrent private placement is likely to be highly volatile and subject to wide fluctuations in response to various factors, some of which we cannot control. As a result of this volatility, investors may not be able to sell their common stock at or above the initial public offering price. The market price for our common stock may be influenced by many factors, including the other risks described in this section of the prospectus entitled "Risk Factors" and the following:

- results of preclinical studies and clinical trials of our product candidates, or those of our competitors or our existing or future collaborators;
- regulatory or legal developments in the United States and other countries, especially changes in laws or regulations applicable to our product candidates;
- the success of competitive products or technologies;
- introductions and announcements of new products by us, our future commercialization partners, or our competitors, and the timing of these introductions or announcements;



---

## Table of Contents

- actions taken by regulatory agencies with respect to our products, clinical studies, manufacturing process or sales and marketing terms;
- actual or anticipated variations in our financial results or those of companies that are perceived to be similar to us;
- the success of our efforts to acquire or in-license additional technologies, products or product candidates;
- developments concerning any future collaborations, including but not limited to those with our sources of manufacturing supply and our commercialization partners;
- market conditions in the pharmaceutical and biotechnology sectors;
- announcements by us or our competitors of significant acquisitions, strategic collaborations, joint ventures or capital commitments;
- developments or disputes concerning patents or other proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our product candidates and products;
- our ability or inability to raise additional capital and the terms on which we raise it;
- the recruitment or departure of key personnel;
- changes in the structure of healthcare payment systems;
- actual or anticipated changes in earnings estimates or changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry generally;
- our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- announcement and expectation of additional financing efforts;
- speculation in the press or investment community;
- trading volume of our common stock;
- sales of our common stock by us or our stockholders;
- the concentrated ownership of our common stock;
- changes in accounting principles;
- terrorist acts, acts of war or periods of widespread civil unrest;
- natural disasters and other calamities; and
- general economic, industry and market conditions.

In addition, the stock market in general, and the markets for pharmaceutical, biopharmaceutical and biotechnology stocks in particular, have experienced extreme price and volume fluctuations that have been often unrelated or disproportionate to the operating performance of the issuer. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. The realization of any of the above risks or any of a broad range of other risks, including those described in this "Risk Factors" section, could have a dramatic and adverse impact on the market price of our common stock.

***You will experience immediate and substantial dilution as a result of this offering and the concurrent private placement and may experience additional dilution in the future.***

If you purchase common stock in this offering, assuming an initial public offering price of \$            per share, the midpoint of the estimated price range set forth on the cover of this prospectus, you will incur immediate and substantial dilution of \$            per share, representing the difference between the assumed initial public offering price of \$            per share and our pro forma net tangible book value per share as of June 30, 2018 after giving effect to this offering and the concurrent private placement and

---

## Table of Contents

the conversion of all outstanding shares of our redeemable convertible preferred stock upon the completion of this offering and the concurrent private placement and the issuance of                    shares that we expect to issue, based upon an assumed initial public offering price of \$                    per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, upon the net exercise of warrants outstanding as of June 30, 2018 that would otherwise expire upon completion of this offering.

Moreover, we issued options in the past to acquire common stock at prices significantly below the assumed initial public offering price. As of June 30, 2018, there were 29,804,074 shares of common stock subject to outstanding options under our 2004 Stock Plan. To the extent that these outstanding options are ultimately exercised, you will incur further dilution.

***The future sale and issuance of equity or of debt securities that are convertible into equity will dilute our share capital.***

We may choose to raise additional capital in the future, depending on market conditions, strategic considerations and operational requirements. To the extent that additional capital is raised through the sale and issuance of shares or other securities convertible into shares, our stockholders will be diluted. Future issuances of our common stock or other equity securities, or the perception that such sales may occur, could adversely affect the trading price of our common stock and impair our ability to raise capital through future offerings of shares or equity securities. No prediction can be made as to the effect, if any, that future sales of common stock or the availability of common stock for future sales will have on the trading price of our common stock.

***An active and liquid trading market for our common stock may not develop and you may not be able to resell your shares of common stock at or above the public offering price.***

Prior to this offering, no market for shares of our common stock existed and an active trading market for our shares may never develop or be sustained following this offering. The initial public offering price for our common stock will be determined through negotiations with the underwriters and the negotiated price may not be indicative of the market price of our common stock after this offering. The market value of our common stock may decrease from the initial public offering price. As a result of these and other factors, you may be unable to resell your shares of our common stock at or above the initial public offering price. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. Furthermore, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into strategic collaborations or acquire companies or products by using our shares of common stock as consideration.

***A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

Based on shares outstanding as of June 30, 2018, upon completion of this offering and the concurrent private placement, we will have outstanding a total of                    shares of common stock. Of these shares, only                    shares of common stock sold in this offering, or                    shares if the underwriters exercise their option to purchase additional shares in full, will be freely tradable, without restriction, in the public market immediately after this offering. Each of our officers, directors and certain of our stockholders have entered or will enter into lock-up agreements with the underwriters that restrict their ability to sell or transfer their shares. The lock-up agreements pertaining to this offering and the concurrent private placement will expire 180 days from the date of this prospectus. However, our underwriters may, in their sole discretion, permit our officers, directors and other current stockholders who are subject to the contractual lock-up to sell shares prior to the expiration of the lock-up agreements. After the lock-up agreements expire, based on shares outstanding as of June 30,

---

## Table of Contents

2018, up to an additional \_\_\_\_\_ shares of common stock will be eligible for sale in the public market, approximately \_\_\_\_\_ of which are held by our officers, directors and their affiliated entities, and will be subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. In addition, \_\_\_\_\_ shares of our common stock that are subject to outstanding options as of June 30, 2018 and \_\_\_\_\_ shares of our common stock that are subject to options granted after June 30, 2018 will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act.

After this offering and concurrent private placement, the holders of an aggregate of \_\_\_\_\_ shares of our outstanding common stock as of June 30, 2018 will have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders. We also intend to register shares of common stock that we may issue under our equity incentive plans. Once we register these shares, they will be able to be sold freely in the public market upon issuance, subject to the 180-day lock-up period under the lock-up agreements described above and in the section entitled "Underwriting."

We cannot predict what effect, if any, sales of our shares in the public market or the availability of shares for sale will have on the market price of our common stock. However, future sales of substantial amounts of our common stock in the public market, including shares issued upon exercise of outstanding options or warrants, or the perception that such sales may occur, could adversely affect the market price of our common stock.

We also expect that significant additional capital may be needed in the future to continue our planned operations. To raise capital, we may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to 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.

***We will have broad discretion in the use of the net proceeds from this offering and the concurrent private placement and may not use them effectively.***

Our management will have broad discretion in the application of the net proceeds from this offering and the concurrent private placement, and you will be relying on the judgment of our management regarding the application of these proceeds. You will not have the opportunity, as part of your investment decision, to assess whether we are using the proceeds appropriately. Our management might not apply our net proceeds in ways that ultimately increase the value of your investment. If we do not invest or apply the net proceeds from this offering and the concurrent private placement in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline.

***If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no or few securities or industry analysts commence coverage of us, the trading price for our common stock could be impacted negatively. In the event we obtain securities or industry analyst coverage, if any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our preclinical studies and clinical trials and operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of such

analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause a decline in our stock price or trading volume.

***Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

Based on the beneficial ownership of our common stock as of July 31, 2018, prior to this offering and the concurrent private placement, our executive officers, directors, holders of 5% or more of our capital stock and their respective affiliates beneficially owned approximately 45.5% of our voting stock and, upon the completion of this offering and the concurrent private placement, that same group will hold approximately % of our outstanding voting stock (assuming no exercise of the underwriters' option to purchase additional shares, no exercise of outstanding options or warrants and no purchases of shares in this offering and the concurrent private placement by any of this group, with the exception of Merck in connection with the concurrent private placement), in each case assuming the conversion of all outstanding shares of our redeemable convertible preferred stock into shares of our common stock and the net exercise of warrants outstanding that would otherwise expire upon the completion of this offering. As a result, these stockholders, if acting together, will continue to have significant influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, amendment of our organizational documents, any merger, consolidation or sale of all or substantially all of our assets and any other significant corporate transaction. The interests of these stockholders may not be the same as or may even conflict with your interests. For example, these stockholders could delay or prevent a change of control of our company, even if such a change of control would benefit our other stockholders, which could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company or our assets and might affect the prevailing market price of our common stock. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

***We are an "emerging growth company" and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including (i) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, (ii) reduced disclosure obligations regarding executive compensation in this prospectus and our periodic reports and proxy statements and (iii) exemptions from the requirements of holding nonbinding advisory stockholder votes on executive compensation and stockholder approval of any golden parachute payments not approved previously. In addition, as an emerging growth company, we are only required to provide two years of audited financial statements and two years of selected financial data in this prospectus.

We could be an emerging growth company for up to five years following the completion of this offering, although circumstances could cause us to lose that status earlier, including if we are deemed to be a "large accelerated filer," which occurs when the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30, or if we have total annual gross revenue of \$1.07 billion or more during any fiscal year before that time, in which cases we would no longer be an emerging growth company as of the following December 31, or if we issue more than \$1.0 billion in non-convertible debt during any three-year period before that time, in which case we would no longer be an emerging growth company immediately. Even after we no longer qualify as an emerging growth company, we may still qualify as a "smaller reporting company," which would allow us to take

---

## Table of Contents

advantage of many of the same exemptions from disclosure requirements, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in this prospectus and in our periodic reports and proxy statements. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our share price may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Until the date that we are no longer an “emerging growth company” or affirmatively and irrevocably opt out of the exemption provided by Section 7(a)(2)(B) of the Securities Act, upon issuance of a new or revised accounting standard that applies to our financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

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

Our restated certificate of incorporation and our restated bylaws that will be in effect upon completion of this offering contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors who are not nominated by current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- permit only the board of directors to establish the number of directors and fill vacancies on the board;
- provide that directors may only be removed “for cause” and only with the approval of two-thirds of our stockholders;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our board could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- prohibit cumulative voting; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, our restated certificate of incorporation will provide that the Court of Chancery of the State of Delaware will be the exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, or the DGCL, our restated certificate of incorporation, or our restated bylaws; or any action asserting a claim against us that is governed by the

---

## Table of Contents

internal affairs doctrine. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims. Alternatively, if a court were to find the choice of forum provision contained in our restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition.

In addition, Section 203 of the DGCL may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock.

***We will incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives and corporate governance practices.***

As a public company, and particularly after we are no longer an emerging growth company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Global Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, we expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain sufficient coverage. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. Moreover, these rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

We are not currently required to comply with the SEC's rules that implement Section 404 of the Sarbanes-Oxley Act, and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Pursuant to Section 404, we will be required to furnish a report by our management on our internal control over financial reporting. However, while we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we will be engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude, within the prescribed timeframe or at all, that our internal control over financial reporting is effective as required by Section 404. If we identify one or more material weaknesses, it could result in an adverse reaction in the financial markets due to a loss

---

[Table of Contents](#)

of confidence in the reliability of our financial statements. In addition, if we are not able to continue to meet these requirements, we may not be able to remain listed on the Nasdaq Global Market.

***Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.***

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

***We may be subject to securities litigation, which is expensive and could divert management attention.***

The market price of our common stock may be volatile and, in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus, including the sections entitled "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business" contains forward-looking statements. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect" and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors" and elsewhere in this prospectus. Moreover, we operate in a competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this prospectus and the documents that we reference in this prospectus and have filed with the Securities and Exchange Commission as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.



## **MARKET AND INDUSTRY DATA**

This prospectus contains estimates and other statistical data made by independent parties and by us relating to our industry and the markets in which we operate, including our general expectations and market position, market opportunity, the incidence of certain medical conditions and other industry data. These data, to the extent they contain estimates or projections, involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates or projections. Industry publications and other reports we have obtained from independent parties generally state that the data contained in these publications or other reports have been obtained in good faith or from sources considered to be reliable, but they do not guarantee the accuracy or completeness of such data. The industry in which we operate is subject to risks and uncertainties due to a variety of factors, including those described in the section entitled "Risk Factors." These and other factors could cause results to differ materially from those expressed in these publications and reports.

## USE OF PROCEEDS

We estimate that the net proceeds from our sale of \_\_\_\_\_ shares of common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses, will be approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ million if the underwriters exercise their option to purchase additional shares in full. We expect that the net proceeds from the concurrent private placement will be up to approximately \$10.0 million.

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) the net proceeds to us from this offering by \$ \_\_\_\_\_ million, assuming the number of shares offered, as set forth on the cover of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions. Similarly, each increase (decrease) of 1,000,000 shares in the number of shares of common stock offered would increase (decrease) the net proceeds that we receive from this offering by \$ \_\_\_\_\_ million, assuming that the assumed initial public offering price remains the same and after deducting the estimated underwriting discounts and commissions.

Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA, or Merck, a holder of approximately 12.5% of our outstanding common stock, has agreed to purchase from us, concurrently with this offering in a private placement, up to \$10.0 million of shares of our common stock at a price per share equal to the initial public offering price, or up to approximately \_\_\_\_\_ shares based on an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated offering price range set forth on the cover of this prospectus, subject to a 17.5% ownership cap after giving effect to the concurrent private placement and this offering.

We currently intend to use the net proceeds we receive from this offering and the concurrent private placement as follows:

- approximately \$ \_\_\_\_\_ million to \$ \_\_\_\_\_ million to fund further development of STRO-001 through \_\_\_\_\_ ;
- approximately \$ \_\_\_\_\_ million to \$ \_\_\_\_\_ million to fund further development of STRO-002 through \_\_\_\_\_ ;
- approximately \$ \_\_\_\_\_ million to \$ \_\_\_\_\_ million to fund the further development of our technology platform, including manufacturing, to broaden our pipeline of product candidates; and
- any remaining amounts to fund working capital and general corporate purposes.

Based on our planned use of the net proceeds, we estimate such funds, together with our existing cash and cash equivalents, will be sufficient for us to fund our operating expenses and capital expenditure requirements through at least the next \_\_\_\_\_ months.

The expected use of the net proceeds from the offering and the concurrent private placement represents our intentions based upon our current plans and business conditions. The amounts we actually expend in these areas, and the timing thereof, may vary significantly from our current intentions and will depend on a number of factors, including the success of research and product development efforts, cash generated from future operations and actual expenses to operate our business. We may use a portion of the net proceeds for the acquisition of, or investment in, businesses that complement our business, although we have no present commitments or agreements.

---

## Table of Contents

The amounts and timing of our clinical expenditures and the extent of clinical development may vary significantly depending on numerous factors, including the status, results and timing of our current preclinical studies and clinical trials and those which we may commence in the future, the product approval process with the FDA and other regulatory agencies, our current collaborations and any new collaborations we may enter into with third parties and any unforeseen cash needs. As a result, we cannot predict with any certainty all of the particular uses for the net proceeds or the amounts that we will actually spend on the uses set forth above. Accordingly, our management will have broad discretion in the application of the net proceeds, and investors will be relying on the judgment of our management regarding the application of the net proceeds of this offering and the concurrent private placement.

The expected net proceeds of this offering and the concurrent private placement will not be sufficient for us to fund any of our product candidates through regulatory approval, and we will need to raise substantial additional capital to complete the development and commercialization of our product candidates.

Pending the uses described above, we intend to invest the net proceeds from this offering and the concurrent private placement in short term, investment-grade interest-bearing securities such as money market accounts, certificates of deposit, commercial paper and guaranteed obligations of the U.S. government.

## **DIVIDEND POLICY**

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, under the terms of our current loan and security agreement, we are prohibited from paying cash dividends or making any distribution on account of our capital stock without the consent of Silicon Valley Bank and Oxford Finance LLC. See the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” for a description of the restrictions on our ability to pay dividends.

## CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2018 on:

- an actual basis;
- a pro forma basis, giving effect to (i) the automatic conversion of 298,590,921 outstanding shares of our redeemable convertible preferred stock as of June 30, 2018 and 194,465,218 outstanding shares of our redeemable convertible preferred stock issued in July 2018 into an aggregate of 581,575,366 shares of common stock immediately prior to the completion of this offering, (ii) the issuance of                    shares of common stock that we expect to issue, based upon an assumed initial public offering price of \$                    per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, upon the net exercise of 1,791,784 redeemable convertible preferred stock warrants and 40,000 common stock warrants that would otherwise expire upon completion of this offering and the related reclassification of redeemable convertible preferred stock warrant liability to total stockholders' equity (deficit), (iii) the conversion of the redeemable convertible preferred stock warrants into common stock warrants and the related reclassification of the redeemable convertible preferred stock warrant liability to total stockholders' equity (deficit), (iv) the repayment of principal and interest on a \$0.2 million outstanding note issued to an executive officer and (v) the effectiveness of our restated certificate of incorporation in connection with the completion of this offering; and
- a pro forma as adjusted basis, giving effect to (i) the pro forma adjustments described above, (ii) the sale of                    shares of common stock in this offering, based upon an assumed initial public offering price of \$                    per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses and (iii) the issuance and sale by us in the concurrent private placement of up to approximately                    shares of common stock to Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA based on the assumed initial public offering price.

The pro forma as adjusted information set forth in the table below is illustrative only and will be adjusted based on the actual initial public offering price and other terms of this offering and the concurrent private placement determined at pricing.

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and related notes, each included elsewhere in this prospectus.

[Table of Contents](#)

	As of June 30, 2018		
	Actual	Pro Forma	Pro Forma
	(Unaudited)		As Adjusted(1)
	(in thousands, except share and per share data)		
Cash and cash equivalents	\$ 25,420	\$	\$
Debt	\$ 14,802	\$	\$
Redeemable convertible preferred stock warrant liability	801		
Redeemable convertible preferred stock, \$0.001 par value—366,402,781 shares authorized; 298,590,921 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma or pro forma as adjusted	135,720		
Stockholders' equity (deficit):			
Preferred stock, \$0.001 par value: no shares authorized, issued and outstanding, actual; shares authorized, no shares issued and outstanding pro forma and pro forma as adjusted	—		
Common stock, \$0.001 par value—540,000,000 shares authorized; 17,407,675 shares issued and outstanding, actual; shares authorized; shares issued and outstanding, pro forma; shares issued and outstanding, pro forma as adjusted	17		
Note receivable from stockholder	(208)		
Additional paid-in-capital	6,770		
Accumulated deficit	(138,598)		
Total stockholders' equity (deficit)	(132,019)		
Total capitalization	\$ 19,304	\$	\$

- (1) Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) each of our pro forma as adjusted cash and cash equivalents, additional paid-in-capital, total stockholders' equity (deficit) and total capitalization by approximately \$ million, assuming that the number of shares offered remains the same and after deducting the estimated underwriting discounts and commissions. Similarly, each increase (decrease) of 1,000,000 shares in the number of shares of common stock offered would increase (decrease) each of our pro forma as adjusted cash and cash equivalents, additional paid-in-capital, total stockholders' equity (deficit) and total capitalization by approximately \$ million, assuming the assumed initial public offering price remains the same and after deducting the estimated underwriting discounts and commissions.

The table above excludes the following shares:

- 29,804,074 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2018 under our 2004 Stock Plan, with a weighted-average exercise price of \$0.29 per share;
- 2,606,483 shares of common stock issuable upon the exercise of warrants to purchase 2,097,260 shares of redeemable convertible preferred stock outstanding as of June 30, 2018, with a weighted-average exercise price of \$0.37 per share (which in connection with the July 2018 closing of the Series E redeemable convertible preferred stock financing were adjusted such that they represent warrants to purchase a total of 2,370,799 shares of redeemable convertible preferred stock), which will automatically convert to warrants to purchase shares of our common stock upon the completion of this offering; and

---

[Table of Contents](#)

- shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of
  - (i) 61,410,868 shares of common stock reserved for future issuance under our 2004 Stock Plan as of June 30, 2018,
  - (ii) shares of common stock reserved for future issuance under our 2018 Equity Incentive Plan, which will become effective on the date immediately prior to the date of the effectiveness of the registration statement of which this prospectus forms a part and
  - (iii) shares of common stock reserved for future issuance under our 2018 Employee Stock Purchase Plan, which will become effective on the date of the effectiveness of the registration statement of which this prospectus forms a part. Upon completion of this offering, any remaining shares available for issuance under our 2004 Stock Plan will be added to the shares reserved under our 2018 Equity Incentive Plan and we will cease granting awards under our 2004 Stock Plan. Our 2018 Equity Incentive Plan and 2018 Employee Stock Purchase Plan also provide for automatic annual increases in the number of shares reserved under the plans, as more fully described in “Executive Compensation—Equity Compensation Benefit Plans and Other Benefit Plans.”

**DILUTION**

If you invest in our common stock in this offering, your ownership interest will be immediately diluted to the extent of the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma as adjusted net tangible book value per share of common stock immediately after this offering and the concurrent private placement.

Net tangible book value (deficit) per share is determined by dividing our total tangible assets (which excludes deferred offering costs) less our total liabilities and redeemable convertible preferred stock by the number of shares of common stock outstanding. Our historical net tangible book value (deficit) as of June 30, 2018 was \$(133.2) million, or \$(7.65) per share, based on 17,407,675 shares of common stock outstanding as of June 30, 2018. Our pro forma net tangible book value as of June 30, 2018 was approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of common stock. Our pro forma net tangible book value per share represents the amount of our total tangible assets (which excludes deferred offering costs) reduced by the amount of our total liabilities and divided by the total number of shares of our common stock outstanding as of June 30, 2018, after giving effect to (i) the automatic conversion of 298,590,921 outstanding shares of our redeemable convertible preferred stock as of June 30, 2018 and 194,465,218 outstanding shares of our redeemable convertible preferred stock issued in July 2018 into an aggregate of 581,575,366 shares of common stock immediately prior to the completion of this offering, and (ii) the issuance of \_\_\_\_\_ shares of common stock that we expect to issue, based upon an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, upon the net exercise of 1,791,784 redeemable convertible preferred stock warrants and 40,000 common stock warrants that would otherwise expire upon completion of this offering.

Net tangible book value dilution per share to new investors in this offering and the concurrent private placement represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the concurrent private placement and the pro forma as adjusted net tangible book value per share of common stock immediately after completion of this offering and the concurrent private placement. After giving effect to (i) the pro forma adjustments set forth above, (ii) our sale in this offering of \_\_\_\_\_ shares of our common stock at an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses and (iii) the issuance and sale by us in the concurrent private placement of up to approximately \_\_\_\_\_ shares of common stock to Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA based on the assumed initial public offering price, our pro forma as adjusted net tangible book value as of June 30, 2018 would have been approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of our common stock. This represents an immediate increase in pro forma net tangible book value of \$ \_\_\_\_\_ per share to our existing stockholders and an immediate dilution of \$ \_\_\_\_\_ per share to investors in this offering and the concurrent private placement, as illustrated in the following table:

Assumed initial public offering price, per share	\$ _____
Pro forma net tangible book value per share as of June 30, 2018	\$ _____
Increase in pro forma net tangible book value per share attributable to new investors in this offering and the concurrent private placement	_____
Pro forma as adjusted net tangible book value per share after this offering and the concurrent private placement	_____
Dilution per share to new investors in this offering and the concurrent private placement	\$ _____



[Table of Contents](#)

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) our pro forma as adjusted net tangible book value by \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share and the dilution in pro forma as adjusted net tangible book value per share to new investors in this offering and the concurrent private placement by \$ \_\_\_\_\_ per share, assuming the number of shares offered, as set forth on the cover of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions. Similarly, each increase of 1,000,000 shares in the number of shares of common stock offered in this offering and the concurrent private placement would increase our pro forma as adjusted net tangible book value by approximately \$ \_\_\_\_\_ million, or approximately \$ \_\_\_\_\_ per share, and would increase dilution per share to new investors in this offering and the concurrent private placement by approximately \$ \_\_\_\_\_ per share and each decrease of 1,000,000 shares in the number of shares of common stock offered in this offering and the concurrent private placement would decrease our pro forma as adjusted net tangible book value by approximately \$ \_\_\_\_\_ million, or approximately \$ \_\_\_\_\_ per share, and would decrease dilution per share to new investors in this offering and the concurrent private placement by approximately \$ \_\_\_\_\_ per share, assuming the assumed initial public offering price per share remains the same and after deducting the estimated underwriting discounts and commissions. The pro forma as adjusted information is illustrative only, and we will adjust this information based on the actual initial public offering price and other terms of this offering and the concurrent private placement determined at pricing.

If the underwriters exercise their option in full to purchase additional shares, the pro forma as adjusted net tangible book value per share after this offering and the concurrent private placement would be \$ \_\_\_\_\_ per share, the increase in pro forma as adjusted net tangible book value per share to existing stockholders would be \$ \_\_\_\_\_ per share and the dilution to new investors in this offering and the concurrent private placement would be \$ \_\_\_\_\_ per share.

The following table shows, as of June 30, 2018, on a pro forma as adjusted basis described above, the differences between the existing stockholders and the purchasers of shares in this offering and the concurrent private placement with respect to the number of shares purchased from us, the total consideration paid, which includes net proceeds received from the issuance of common and redeemable convertible preferred stock, cash received from the exercise of stock options, and the value of any stock issued for services and the average price paid per share (in thousands, except per share amounts and percentages):

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%	\$	%	\$
Concurrent private placement investor					
New public investors					\$
Total		100.0%	\$	100.0%	

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) total consideration paid by new investors and total consideration paid by all stockholders by approximately \$ \_\_\_\_\_ million, assuming that the number of shares offered, as set forth on the cover of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions. Similarly, each increase (decrease) of 1,000,000 shares in the number of shares of common stock offered in this offering would increase (decrease) total consideration paid by new investors and total consideration paid by all stockholders by approximately \$ \_\_\_\_\_ million, assuming the assumed initial public offering price remains the same and after deducting the estimated underwriting discounts and commissions.

---

## Table of Contents

In addition, to the extent that any outstanding options or warrants are exercised, investors in this offering will experience further dilution.

Except as otherwise indicated, the above discussion and tables assume no exercise of the underwriters' option to purchase additional shares. If the underwriters exercise their option to purchase additional shares in full, our existing stockholders would own % and our new investors would own % of the total number of shares of our common stock outstanding upon the completion of this offering and the concurrent private placement.

The number of shares of common stock outstanding as of June 30, 2018 excludes:

- 29,804,074 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2018 under our 2004 Stock Plan, with a weighted-average exercise price of \$0.29 per share;
- 2,606,483 shares of common stock issuable upon the exercise of warrants to purchase 2,097,260 shares of redeemable convertible preferred stock outstanding as of June 30, 2018 with a weighted-average exercise price of \$0.37 per share (which in connection with the July 2018 closing of the Series E redeemable convertible preferred stock financing were adjusted such that they represent warrants to purchase a total of 2,370,799 shares of redeemable convertible preferred stock), which will automatically convert to warrants to purchase share of our common stock upon the completion of this offering; and
- shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of (i) 61,410,868 shares of common stock reserved for future issuance under our 2004 Stock Plan as of June 30, 2018, (ii) shares of common stock reserved for future issuance under our 2018 Equity Incentive Plan, which will become effective on the date immediately prior to the date of the effectiveness of the registration statement of which this prospectus forms a part and (iii) shares of common stock reserved for future issuance under our 2018 Employee Stock Purchase Plan, which will become effective on the date of the effectiveness of the registration statement of which this prospectus forms a part. Upon completion of this offering, any remaining shares available for issuance under our 2004 Stock Plan will be added to the shares reserved under our 2018 Equity Incentive Plan and we will cease granting awards under our 2004 Stock Plan. Our 2018 Equity Incentive Plan and 2018 Employee Stock Purchase Plan also provide for automatic annual increases in the number of shares reserved under the plans, as more fully described in "Executive Compensation—Equity Compensation Benefit Plans and Other Benefit Plans."

**SELECTED FINANCIAL DATA**

The following tables set forth our selected statements of operations and balance sheet data. The selected statements of operations data presented below for the years ended December 31, 2016 and 2017 and the selected balance sheet data as of December 31, 2016 and 2017 are derived from our audited financial statements included elsewhere in this prospectus, which financial statements have been audited by Ernst & Young LLP, our independent registered public accounting firm. The Ernst & Young LLP audit report on the financial statements for the year ended December 31, 2017 includes an explanatory paragraph that describes an uncertainty about our ability to continue as a going concern. We derived our summary statements of operations data for the six months ended June 30, 2017 and 2018 and our summary balance sheet data as of June 30, 2018 from our unaudited interim financial statements included elsewhere in this prospectus. Our unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles on the same basis as our audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal, recurring adjustments, that are necessary for the fair statement of our financial position as of June 30, 2018 and our results of operations for the six months ended June 30, 2017 and 2018. The following selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in any future period and our interim results for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018, or any other period. The selected financial data in this section are not intended to replace the financial statements and are qualified in their entirety by the financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,		Six Months Ended June 30,	
	2016	2017	2017	2018
	(unaudited)			
	(in thousands, except share and per share data)			
<b>Statements of Operations Data:</b>				
Revenue:				
Collaboration revenue	\$ 59,731	\$ 51,741	\$ 30,202	\$ 7,031
Other revenue – related parties	—	—	—	4,466
<b>Total revenue</b>	<b>59,731</b>	<b>51,741</b>	<b>30,202</b>	<b>11,497</b>
Operating expenses:				
Research and development	43,550	54,639	25,830	26,833
General and administrative	14,817	16,374	7,411	8,455
<b>Total operating expenses</b>	<b>58,367</b>	<b>71,013</b>	<b>33,241</b>	<b>35,288</b>
Income (loss) from operations	1,364	(19,272)	(3,039)	(23,791)
Interest income	251	273	130	80
Interest expense	—	(612)	—	(784)
Other income (expense), net	87	(77)	(17)	908
<b>Net income (loss)</b>	<b>\$ 1,702</b>	<b>\$ (19,688)</b>	<b>\$ (2,926)</b>	<b>\$ (23,587)</b>
<b>Net income (loss) per share attributable to common stockholders, basic and diluted(1)</b>	<b>\$ —</b>	<b>\$ (1.21)</b>	<b>\$ (0.18)</b>	<b>\$ (1.37)</b>
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic and diluted(1)	14,804,949	16,265,874	16,015,593	17,162,459
<b>Pro forma net loss per share, basic and diluted (unaudited)(1)</b>		<b>\$ —</b>		<b>\$ —</b>
Weighted-average shares used in computing pro forma net loss per share, basic and diluted (unaudited)(1)				

---

[Table of Contents](#)

- (1) See Notes 2 and 13 to our audited financial statements and Notes 2 and 10 to our unaudited interim financial statements included elsewhere in this prospectus for an explanation of the calculations of our basic and diluted net income (loss) per share attributable to common stockholders, basic and diluted pro forma net loss per share and the weighted-average number of shares used in the computation of the per share amounts.

	<u>As of December 31,</u>		<u>As of June 30,</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>
			<u>(unaudited)</u>
		(in thousands)	
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 11,593	\$ 22,020	\$ 25,420
Marketable securities	35,928	–	–
Working capital (deficit)	(493)	(6,327)	10,997
Total assets	69,277	40,769	45,181
Debt	–	14,634	14,802
Redeemable convertible preferred stock warrant liability	1,193	1,708	801
Redeemable convertible preferred stock	102,505	102,505	135,720
Accumulated deficit	(95,323)	(115,011)	(138,598)
Total stockholders' deficit	(90,901)	(109,001)	(132,019)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations together with the section of this prospectus entitled "Selected Financial Data" and our financial statements and related notes included elsewhere in this prospectus. This discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations, intentions and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section of this prospectus entitled "Risk Factors."*

### Overview

We are a clinical stage drug discovery, development and manufacturing company focused on leveraging our proprietary integrated cell-free protein synthesis platform, XpressCF, to create a broad variety of optimally designed, next-generation protein therapeutics for cancer and autoimmune disorders. We aim to design therapeutics using the most potent modalities, including cytokine-based immuno-oncology therapeutics, antibody-drug conjugates, or ADCs, and bispecific antibodies that are directed primarily against clinically validated targets where the current standard of care is suboptimal. Our platform allows us to accelerate the discovery and development of molecules by enabling the rapid and systematic evaluation of protein structure-activity relationships to create optimized homogeneous product candidates. Our mission is to transform the lives of patients by using our XpressCF Platform to create medicines with improved therapeutic profiles for areas of unmet need.

Once identified, production of protein drug candidates can be rapidly and predictably scaled in our current Good Manufacturing Practices compliant manufacturing facility. We have the ability to manufacture our cell-free extract that supports our production of proteins on a large scale using a semi-continuous fermentation process. Our two most advanced product candidates are wholly owned: STRO-001, an ADC directed against CD74, for patients with multiple myeloma and non-Hodgkin lymphoma; and STRO-002, an ADC directed against folate receptor-alpha, or FolRa, for patients with ovarian and endometrial cancers. STRO-001 is currently enrolling patients in a Phase 1 trial, with initial safety data expected in mid-2019. We plan to submit an investigational new drug, or IND, application for STRO-002 to the U.S. Food and Drug Administration in the fourth quarter of 2018. We have also entered into multi-target, product-focused collaborations with leaders in the field of oncology, including a cytokine derivatives collaboration with Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA, or Merck, a B cell maturation antigen, or BCMA, and an immuno-oncology directed alliance with Celgene Corporation, or Celgene, and an oncology-focused collaboration with Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name "EMD Serono").

Since the commencement of our operations, we have devoted substantially all of our resources to performing research and development and manufacturing activities in support of our own product development efforts and those of our collaborators, raising capital to support and expand such activities and providing general and administrative support for these operations. We have funded our operations to date primarily from upfront, milestone and other payments under our collaboration agreements with Merck, Celgene and EMD Serono, the issuance and sale of redeemable convertible preferred stock and debt proceeds.

We have not generated any revenue from commercial product sales and have no products for commercial sale. We had a net loss of \$19.7 million for the year ended December 31, 2017 and a net loss of \$23.6 million for the six months ended June 30, 2018. Although we had net income for the year

---

## Table of Contents

ended December 31, 2016 of \$1.7 million, we cannot assure you that we will ever be profitable again or that we will generate positive cash flow from operating activities. As of June 30, 2018, we had an accumulated deficit of \$138.6 million. We do not expect to generate any revenue from commercial product sales unless and until we successfully complete development and obtain regulatory approval for one or more of our product candidates, which we expect will take a number of years. If we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. We expect our operating expenses to significantly increase as we continue to develop, and seek regulatory approvals for, our product candidates, engage in other research and development activities, expand our pipeline of product candidates, continue to develop our manufacturing facility and capabilities, maintain and expand our intellectual property portfolio, seek regulatory and marketing approval for any product candidates that we may develop, acquire or in-license other assets or technologies, ultimately establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval and operate as a public company. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year, depending on the timing of our clinical trials, our expenditures on other research and development activities and the timing of achievement and receipt of upfront, milestones and other collaboration agreement payments.

As of December 31, 2017 and June 30, 2018, we had \$22.0 million and \$25.4 million, respectively, in cash and cash equivalents. We completed an equity financing and obtained \$52.0 million in gross proceeds from the sale of our Series E redeemable convertible preferred stock in July 2018. In July 2018, we entered into an Exclusive Patent License and Research Collaboration Agreement, or the 2018 Merck Agreement, with Merck to jointly develop up to three research programs focusing on cytokine derivatives for cancer and autoimmune disorders. Under the 2018 Merck Agreement, we received an upfront payment of \$60.0 million in August 2018 for our commitment to the research and development of the target programs. We expect that the net proceeds from this offering and the concurrent private placement, together with our existing cash and cash equivalents, the proceeds from our recent Series E financing and Merck collaboration will be sufficient to fund our operations through at least the next 12 months. We will need substantial additional funding in addition to the net proceeds of this offering and the concurrent private placement to support our continuing operations and pursue our long-term business plan. We may seek additional funding through the issuance of our common stock, other equity or debt financings, or collaborations or partnerships with other companies. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our clinical development efforts for our product candidates and other research activities, payments received under any future or existing license and collaboration agreements, and development and manufacturing activities. We may not be able to raise additional capital on terms acceptable to us, or at all. Any failure to raise capital as and when needed would compromise our ability to execute on our business plan and may cause us to significantly delay, scale back or discontinue the development of some of our programs or curtail any efforts to expand our product pipeline.

### ***Collaboration and License Agreements***

#### ***Merck Agreement***

In July 2018, we entered into the 2018 Merck Agreement with Merck to jointly develop up to three research programs focusing on cytokine derivatives for cancer and autoimmune disorders.

Upon signing the 2018 Merck Agreement, Merck agreed to pay us an upfront payment of \$60.0 million, which we received in August 2018, for the research and development of two target programs, and Merck purchased \$20.0 million in Series E redeemable convertible preferred stock from us. Under the 2018 Merck Agreement, we are eligible to receive financial support for our research and development efforts based on an agreed-upon level of full-time equivalent personnel effort and related

---

## Table of Contents

reimbursement rate. Additionally, we are eligible to receive another milestone payment if a third target program is selected, and Merck has agreed to purchase up to \$10.0 million of our common stock concurrently with the closing of this offering.

Under the terms of the 2018 Merck Agreement, we are eligible to receive aggregate milestone payments of up to \$1.6 billion, assuming the development and sale of all therapeutic candidates and all possible indications identified under the collaboration. If one or more products from each of the target programs are developed for non-oncology or a single indication, we will be eligible for reduced aggregate milestone payments. In addition, we are eligible to receive tiered royalties ranging from mid-single digit to low teen percentages on the worldwide sales of any commercial products that may result from the collaboration.

### *Celgene Agreements*

In September 2014, we entered into a Collaboration and License Agreement with Celgene, or the 2014 Celgene Agreement, to discover and develop bispecific antibodies and/or ADCs focused primarily on the field of immuno-oncology using our XpressCF Platform. Under the 2014 Celgene Agreement, we received upfront payments totaling \$95.0 million in September 2014, which included an \$11.9 million equity investment, and additional payments totaling \$60.0 million.

In August 2017, we entered into an Amended and Restated Collaboration and License Agreement with Celgene, or the 2017 Celgene Agreement, to refocus our 2014 Celgene Agreement on four programs that are advancing through preclinical development, including an ADC program targeting BCMA. Upon signing the 2017 Celgene Agreement, we received an option fee payment of \$12.5 million in August 2017 and are eligible to receive a second option fee payment of \$12.5 million following the first IND clearance, if any, for one of the four programs, if Celgene desires to maintain its option to acquire the U.S. rights to develop and commercialize a second collaboration program to reach IND status. If Celgene exercises its option to acquire from us the U.S. rights to a second collaboration program, it will make an option exercise fee payment to us, the amount of which depends on which program reaches IND status.

Under the terms of the 2017 Celgene Agreement, we are eligible to receive a potential future payment for manufacturing activities of \$10.0 million. We are also entitled to receive financial support for research and development services to be assigned to us by Celgene, based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate. In addition, for licensed products for which Celgene holds worldwide rights, we are eligible to receive aggregate milestone and option fee payments of up to \$295.0 million for certain licensed products and up to \$393.7 million for certain other licensed products under the collaboration, if approved in multiple indications, and, depending on the licensed product, tiered royalties ranging from single digit to low teen percentages on worldwide sales of any commercial products that may result from the 2017 Celgene Agreement. For licensed products for which Celgene holds ex-U.S. rights, we will also be eligible to receive pre-commercial contingent payments and tiered royalties ranging from mid to high single digit percentages.

We recognized revenue from the Celgene agreements of \$54.0 million and \$44.6 million during the years ended December 31, 2016 and 2017, respectively, and \$26.5 million and \$3.4 million during the six months ended June 30 2017 and 2018, respectively. As of December 31, 2016 and 2017 and June 30, 2018, there was \$39.5 million, \$18.0 million and \$14.8 million, respectively, of deferred revenue related to payments received by us under the Celgene agreements.

### *EMD Serono Agreement*

We entered into a Collaboration Agreement with EMD Serono in May 2014, or the Collaboration Agreement, which was replaced by a License Agreement with EMD Serono in September 2014, or the MDA Agreement, to develop ADCs for multiple cancer targets.

---

## [Table of Contents](#)

Upon signing the Collaboration Agreement, we received \$10.0 million in an upfront payment. In addition, upon signing the MDA Agreement, we received an additional \$10.0 million in an upfront payment and receive financial support for our research and development services based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate. As of June 30, 2018, we had received approximately \$7.0 million in funding support since inception for research and development services. We anticipate entering into a manufacturing supply agreement with EMD Serono to provide them with product candidate materials for IND-enabling and clinical studies.

We are eligible to receive up to \$52.5 million for each product developed under the MDA Agreement, primarily from pre-commercial contingent payments. In addition, we are eligible to receive tiered royalties ranging from low to mid single digit percentages, along with certain additional one-time royalties, on worldwide sales of any commercial products that may result from the MDA Agreement.

We recognized revenue from the MDA Agreement of \$5.7 million and \$7.1 million during the years ended December 31, 2016 and 2017, respectively, and \$3.7 million and \$3.7 million during the six months ended June 30, 2017 and 2018, respectively. As of December 31, 2016 and 2017 and June 30, 2018, there was \$10.0 million, \$5.9 million and \$3.8 million, respectively, of deferred revenue related to payments received by us under the MDA Agreement.

### **Financial Operations Overview**

#### ***Total Revenue***

We have no products approved for commercial sale and have not generated any revenue from commercial product sales. Our total revenue to date has been generated principally from our collaboration and license agreements with Celgene and EMD Serono, and to a lesser extent, from manufacturing, supply and services and products we provide to Celgene and SutroVax, Inc., or SutroVax.

#### ***Collaboration Revenue***

Collaboration revenue consists of revenue received from upfront, milestone and contingent payments received from our collaborators. We recognize revenue from nonrefundable upfront license payments over the term of our estimated period of performance under the agreements. In addition to receiving upfront payments, we may also be entitled to milestone and other contingent payments upon achieving predefined objectives. Revenue from milestones, if they are nonrefundable and deemed substantive, are recognized upon successful accomplishment of the performance obligations. To the extent that non-substantive milestones are achieved, and we have remaining performance obligations, such payments are deferred and recognized as revenue over the estimated remaining period of performance.

We expect that any collaboration revenue we generate principally from our current collaboration and license agreements with Merck, Celgene and EMD Serono, and from any future collaboration partners, will fluctuate in the future as a result of the timing and amount of upfront, milestones and other collaboration agreement payments. We will begin recognizing revenue under the 2018 Merck Agreement in the third quarter of 2018.

#### ***Other Revenue – Related Parties***

Other revenue – related parties consists of revenue received from development, manufacturing and supply chain management services, including clinical product supply, that we provide to Celgene and from extracts and custom reagents that we provide to SutroVax. We recognize revenue when the services or products are provided. We expect other revenue – related parties will fluctuate from period to period as a result of the timing of ordering and providing such services and products.



**Operating Expenses**

*Research and Development*

Research and development expenses represent costs incurred in performing research, development and manufacturing activities in support of our own product development efforts and those of our collaborators, and include salaries, employee benefits, stock-based compensation, laboratory supplies, outsourced research and development expenses, professional services and allocated facilities-related costs. We expense both internal and external research and development costs as they are incurred. Non-refundable advance payments for services that will be used or rendered for future research and development activities are recorded as prepaid expenses and recognized as expenses as the related services are performed.

We expect our research and development expenses to increase substantially in absolute dollars in the future as we advance our product candidates into and through preclinical studies and clinical trials, pursue regulatory approval of our product candidates, expand our pipeline of product candidates and continue to develop our manufacturing facility and capabilities. The process of conducting the necessary preclinical and clinical research to obtain regulatory approval is costly and time consuming. The actual probability of success for our product candidates may be affected by a variety of factors including: the safety and efficacy of our product candidates, early clinical data, investment in our clinical programs, the ability of collaborators to successfully develop our licensed product candidates, competition, manufacturing capability and commercial viability. We may never succeed in achieving regulatory approval for any of our product candidates. As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of our product candidates.

## Table of Contents

The following table summarizes our research and development expenses incurred during the periods indicated. The internal costs include personnel, facility costs and research and scientific related activities associated with our pipeline. The external program costs reflect external costs attributable to our clinical development candidates and preclinical candidates selected for further development. Such expenses include third-party costs for preclinical and clinical studies and research services, and other consulting costs.

	Year Ended December 31,		Six Months Ended June 30,	
	2016	2017	2017	2018
	(in thousands)			
<b>Internal Costs:</b>				
Research and drug discovery	\$ 17,040	\$ 15,636	\$ 7,748	\$ 7,620
Process and product development	8,224	8,195	4,196	4,185
Manufacturing	14,496	19,769	8,035	8,266
Clinical development	–	843	327	599
Total internal costs	<u>39,760</u>	<u>44,443</u>	<u>20,306</u>	<u>20,670</u>
<b>External Program Costs:</b>				
Research and drug discovery	1,650	1,090	498	515
Toxicology and translational science	138	3,767	2,699	1,122
Process and product development	158	208	44	240
Manufacturing	1,844	4,198	2,075	2,946
Clinical development	–	933	208	1,340
Total external program costs	<u>3,790</u>	<u>10,196</u>	<u>5,524</u>	<u>6,163</u>
Total research and development expenses	<u>\$ 43,550</u>	<u>\$ 54,639</u>	<u>\$ 25,830</u>	<u>\$ 26,833</u>

### *General and Administrative*

Our general and administrative expenses consist primarily of personnel costs, expenses for outside professional services, including legal, human resource, audit, accounting and tax services and allocated facilities-related costs. Personnel costs include salaries, employee benefits and stock-based compensation. We expect to incur additional expenses as a result of this offering and operating as a public company, including expenses related to compliance with the rules and regulations of the Securities and Exchange Commission, or SEC, and listing standards applicable to companies listed on a national securities exchange, additional insurance expenses, investor relations activities and other administrative and professional services. We also expect to increase the size of our administrative function to support the anticipated growth of our business.

### *Interest Income*

Interest income consists primarily of interest received on our invested funds.

### *Interest Expense*

Interest expense includes interest incurred on our debt and amortization of debt issuance costs.

### *Other Income (Expense), Net*

Other income (expense), net primarily includes gains and losses from the remeasurement of our liabilities related to our redeemable convertible preferred stock warrants. We will continue to adjust the liability for changes in estimated fair value until the earlier of the exercise of the warrants, expiration of the warrants, or conversion of the redeemable convertible preferred stock warrants upon the

[Table of Contents](#)

completion of a liquidation event, including the completion of an initial public offering, into common stock warrants. At such time, the redeemable convertible preferred stock warrant liability will be reclassified to additional paid-in-capital and we will no longer record any related periodic fair value adjustments.

**Comparison of the Six Months Ended June 30, 2017 and 2018**

	Six Months Ended June 30,		\$ Change	% Change
	2017	2018		
	(unaudited)			
	(in thousands except percentages)			
Collaboration revenue	\$30,202	\$ 7,031	\$(23,171)	(77)%
Other revenue—related parties	—	4,466	4,466	*
<b>Total revenue</b>	<b>30,202</b>	<b>11,497</b>	<b>(18,705)</b>	<b>(62)</b>
Operating expenses:				
Research and development	25,830	26,833	1,003	4
General and administrative	7,411	8,455	1,044	14
<b>Total operating expenses</b>	<b>33,241</b>	<b>35,288</b>	<b>2,047</b>	<b>6</b>
Income (loss) from operations	(3,039)	(23,791)	(20,752)	*
Interest income	130	80	(50)	(38)%
Interest expense	—	(784)	(784)	*
Other income (expense), net	(17)	908	925	*
<b>Net loss</b>	<b>\$ (2,926)</b>	<b>\$ (23,587)</b>	<b>\$ (20,661)</b>	<b>*</b>

\* Percentage not meaningful

**Revenue**

We have recognized revenue as follows during the periods indicated:

	Six Months Ended June 30,	
	2017	2018
	(unaudited)	
	(in thousands)	
<b>Collaboration revenue:</b>		
Celgene:		
Amortization of up-front payments	\$ 13,713	\$ 3,257
Research and development services	—	98
Milestones and contingent payments	12,825	—
Total	26,538	3,355
EMD Serono:		
Amortization of up-front payments	2,060	2,066
Research and development services	1,604	1,610
Total	3,664	3,676
<b>Total collaboration revenue</b>	<b>\$ 30,202</b>	<b>\$ 7,031</b>
<b>Other revenue—related parties:</b>		
Celgene:		
Development and manufacturing services and clinical product supply	\$ —	\$ 3,564
SutroVax:		
Supply and other	—	902
<b>Total other revenue—related parties</b>	<b>\$ —</b>	<b>\$ 4,466</b>

---

## [Table of Contents](#)

Total revenue decreased by \$18.7 million, or 62%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The decrease was due to the decline in collaboration revenue of \$23.2 million due primarily to a decrease of \$12.8 million recognized from milestones and contingent payments from Celgene and the decline in collaboration revenue of \$10.5 million recognized from the up-front nonrefundable payment of \$83.1 million received in 2014 under the 2014 Celgene Agreement, as the remaining deferred revenue balance, as of the effective date of the 2017 Celgene Agreement, along with the payments under the 2017 Celgene Agreement, will be recognized ratably starting in August 2017 and ending in September 2020. The decrease was partially offset by a \$3.6 million increase in other revenue recognized from development and clinical manufacturing services and supplies provided to Celgene, and an increase of \$0.9 million in supplies and other revenue provided to SutroVax.

### ***Research and Development Expense***

Research and development expense increased by \$1.0 million, or 4%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase was primarily due to increased costs incurred under the Celgene agreements partially offset by the decrease from personnel-related costs of \$0.3 million for the six months ended June 30, 2018 being classified to general and administrative expense effective January 2018, as the underlying activities are now more focused on operational matters.

### ***General and Administrative Expense***

General and administrative expense increased by \$1.0 million, or 14%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase was due to \$0.6 million in personnel-related expenses from higher headcount and \$0.3 million from the inclusion of the personnel-related costs previously in research and development expense effective in January 2018.

### ***Interest Expense***

Interest expense increased by \$0.8 million during the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due to interest incurred under a loan and security agreement that we entered into with Oxford Finance LLC, or Oxford, and Silicon Valley Bank, or SVB, in August 2017.

### ***Other Income (Expense), Net***

Other income (expense), net changed by \$0.9 million during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The change was primarily due to the gain of \$0.9 million for the change in the estimated fair value of our redeemable convertible preferred stock warrants during the six months ended June 30, 2018.

**Comparison of the Years Ended December 31, 2016 and 2017**

	Year Ended December 31,		S Change	% Change
	2016	2017		
	(in thousands except percentages)			
Collaboration revenue	\$59,731	\$ 51,741	\$ (7,990)	(13)%
Operating expenses:				
Research and development	43,550	54,639	11,089	25
General and administrative	14,817	16,374	1,557	11
Total operating expenses	58,367	71,013	12,646	22
Income (loss) from operations	1,364	(19,272)	(20,636)	*
Interest income	251	273	22	9
Interest expense	–	(612)	(612)	*
Other income (expense), net	87	(77)	(164)	*
Net income (loss)	\$ 1,702	\$(19,688)	\$(21,390)	*

\* Percentage not meaningful

**Collaboration Revenue**

We have recognized revenue from our collaboration agreements as follows during the periods indicated:

	Year Ended December 31,	
	2016	2017
	(in thousands)	
Celgene:		
Amortization of up-front payment	\$27,730	\$16,694
Research and development services	–	660
Milestones and contingent payments	26,271	27,252
Total	54,001	44,606
EMD Serono:		
Amortization of up-front payment	4,120	4,120
Research and development services	1,610	3,015
Total	5,730	7,135
Total collaboration revenue	\$59,731	\$51,741

Revenue decreased by \$8.0 million, or 13%, during the year ended December 31, 2017 compared to the year ended December 31, 2016. The decrease was due to the decline in collaboration revenue of \$11.0 million recognized from the up-front nonrefundable payment of \$83.1 million received in 2014 under the 2014 Celgene Agreement, as the remaining deferred revenue balance, as of the effective date of the 2017 Celgene Agreement, along with the payments under the 2017 Celgene Agreement, will be recognized ratably starting in August 2017 and ending in September 2020. The decrease was partially offset by a \$1.0 million increase in revenue recognized from milestones and contingent payments from Celgene and an increase of an aggregate of \$2.1 million in research and development services for Celgene and EMD Serono.

**Research and Development Expense**

Research and development expense increased by \$11.1 million, or 25%, during the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase was due to an

increase of \$3.4 million in personnel-related expenses due to headcount growth, an increase of \$2.4 million in consulting and other external services, an increase of \$1.7 million in facilities-related costs, as a result of increased research and development activities in support of our own product development efforts and those of our collaborators, and a net increase of \$0.9 million in preclinical and pharmacology research spending as well as manufacturing supplies and production materials. The increase in research and development expense also reflects an impairment charge of \$2.7 million pertaining to certain custom-built manufacturing equipment that failed to meet our acceptance criteria.

**General and Administrative Expense**

General and administrative expense increased by \$1.6 million, or 11%, during the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase was due to an increase of \$0.5 million in equipment-related expenses and an increase of \$0.7 million in personnel-related expenses due to higher headcount. In addition, we incurred an additional \$0.4 million related to external investor relations services and professional services fees.

**Interest Expense**

Interest expense increased by \$0.6 million during the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase was due to the interest incurred under a loan and security agreement that we entered into in August 2017. We had no outstanding debt in 2016.

**Other Income (Expense), Net**

Other income (expense), net increased by \$0.2 million during the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase was primarily due to the change in estimated fair value of our Series B and Series C redeemable convertible preferred stock warrants.

**Liquidity and Capital Resources**

**Sources of Liquidity**

Since inception, we have funded our operations primarily by payments received from our collaborators, net proceeds from the sale of our redeemable convertible preferred stock and debt proceeds. Our expenditures are primarily related to research, development and manufacturing activities. At December 31, 2017 and June 30, 2018, we had available cash and cash equivalents of \$22.0 million and \$25.4 million, respectively. As of June 30, 2018, our outstanding debt was \$14.8 million, which is net of \$0.4 million unamortized debt discount, and we had an accumulated deficit of \$138.6 million.

In July 2018, we completed a closing of the Series E redeemable convertible preferred stock financing that resulted in gross proceeds of \$52.0 million. In combination with the \$33.4 million in gross proceeds we raised in the May and June 2018 closings of the Series E redeemable convertible preferred stock financing, the total gross proceeds from the Series E redeemable convertible preferred stock financing were \$85.4 million. Additionally, in July 2018, we entered into the 2018 Merck Agreement, pursuant to which we received an upfront payment of \$60.0 million in August 2018.

In August 2017, we entered into a loan and security agreement with Oxford and SVB under which we borrowed \$15.0 million. The loan is due in 30 monthly installments from March 2019 through its repayment in August 2021, with interest-only monthly payments until March 2019. If certain qualified funding events occur, the loan will be due in 24 monthly installments from September 2019 through repayment on August 2021, with interest-only payments until September 2019.

The interest charges on the loan are based on a floating rate that equals the greater of 7.39% or the sum of the 30-day U.S. Dollar London Interbank Offered Rate, or LIBOR, plus 6.40%. In addition,

we will make a final payment equal to 3.83% of the original principal amount of the loan, or \$574,500, which will be accrued over the term of the loan using the effective-interest method.

The loan is secured by all our assets, excluding intellectual property and certain other assets. The loan contains customary affirmative and restrictive covenants, including with respect to our ability to enter into fundamental transactions, incur additional indebtedness, grant liens, pay any dividend or make any distributions to our holders, make investments, merge or consolidate with any other person, or engage in transactions with our affiliates, but does not include any financial covenants. The loan agreement provides that an event of default will occur if, among other triggers, there occurs any circumstances that could reasonably be expected to result in a material adverse effect on our business, operations or condition, or on our ability to perform our obligations under the loan. We have disclosed that there was substantial doubt about our ability to continue as going concern as of December 31, 2017 given our continuing operating losses and our then-available capital resources, which could have been deemed to be an event of default if such condition was considered to have a material adverse effect on our business, operations or condition. As a result, at December 31, 2017, we classified the entire debt balance as a current liability given that a determination of such an event of default was outside of our control. However, as of June 30, 2018, our existing cash and cash equivalents, proceeds from our Series E redeemable convertible preferred stock financing, the upfront payment under the 2018 Merck Agreement and proceeds from this offering and the concurrent private placement will be sufficient to fund our operating requirements for at least the next 12 months, and therefore, we do not believe that the prior doubt about our ability to continue as a going concern has a material adverse effect on our business. Based on the proceeds from our July 2018 Series E convertible redeemable preferred stock financing and the \$60.0 million upfront payment from Merck described above, as of June 30, 2018, we classified \$2.0 million of the outstanding debt balance as current and the remainder as non-current, which reflects the scheduled repayments under the loan.

The loan agreement also includes customary representations and warranties, other events of default and termination provisions. We were in compliance with all covenants under the loan as of December 31, 2017 and June 30, 2018.

#### ***Funding Requirements***

Based on our planned operations and the proceeds from our July 2018 Series E redeemable convertible preferred stock financing and the \$60.0 million upfront payment from Merck, we expect that our current cash and cash equivalents will be sufficient to fund our operations for at least 12 months after the date the unaudited interim financial statements are issued. However, we will need to raise additional capital through equity or debt financing, or potential additional collaboration proceeds prior to achieving commercialization of our products. As noted in our 2017 audited financial statements, there were conditions that raised substantial doubt about our ability to continue as a going concern for a period of one year from the date of the issuance of our 2017 financial statements. Our ability to continue as a going concern is dependent upon our ability to successfully secure sources of financing and ultimately achieve profitable operations.

We will require additional financing to fund working capital and pay our obligations. We may seek to raise any necessary additional capital through a combination of public or private equity offerings, debt financings, collaborations, strategic alliances, licensing arrangements and other marketing and distribution arrangements. There can be no assurance that we will be successful in acquiring additional funding at levels sufficient to fund our operations or on terms favorable to us. If we are unable to obtain adequate financing when needed, we may have to delay, reduce the scope of or suspend one or more of our pre-clinical and clinical studies, research and development programs or commercialization efforts. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates and the extent to which we may enter into additional collaborations with third parties to participate in their development and commercialization, we are

## Table of Contents

unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical studies. Our future funding requirements will depend on many factors, including the following:

- the scope, rate of progress, results and cost of our clinical trials, preclinical studies and other related activities;
- the cost of manufacturing clinical supplies, and establishing commercial supplies, of our product candidates and any products that we may develop;
- the receipt of any future payments from current or potential collaborators;
- the number and characteristics of product candidates that we pursue;
- the cost, timing and outcomes of regulatory approvals;
- the cost and timing of establishing sales, marketing and distribution capabilities;
- the terms and timing of any other collaborative, licensing and other arrangements that we may establish;
- the timing, receipt and amount of sales, profit sharing or royalties, if any, from our potential products;
- the cost of preparing, filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; and
- the extent to which we acquire or invest in businesses, products or technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

To the extent that we raise additional capital through additional collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our product candidates, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us. If we do raise additional capital through public or private equity or convertible debt offerings, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our stockholders' rights. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

### Cash Flows

The following table summarizes our cash flows during the periods indicated:

	Year Ended December 31,		Six Months Ended June 30,	
	2016	2017	2017	2018
	(in thousands)			
Cash used in operating activities	\$ (13,160)	\$ (37,074)	\$ (30,196)	\$ (28,955)
Cash provided by (used in) investing activities	9,591	32,602	24,816	(400)
Cash provided by financing activities	184	14,639	38	32,755
Net (decrease) increase in cash and cash equivalents and restricted cash	<u>\$ (3,385)</u>	<u>\$ 10,167</u>	<u>\$ (5,342)</u>	<u>\$ 3,400</u>

### Cash Flows from Operating Activities

Cash used in operating activities for the six months ended June 30, 2018 was \$29.0 million. Our net loss of \$23.6 million was decreased by non-cash charges of \$2.3 million for depreciation and amortization and \$0.5 million for stock-based compensation, which were partially offset by the gain of \$0.9 million for the change in fair value of our redeemable convertible preferred stock warrant liability.



---

## Table of Contents

Cash used in operating activities reflected a change in net operating assets of \$7.2 million, primarily due to a decrease in our deferred revenue balance of \$5.3 million from the recognition of revenue pertaining to payments received from our collaborators Celgene and EMD Serono during prior periods, an increase in accounts receivable of \$1.6 million due to higher research and development services revenues from our collaborators Celgene and EMD Serono and a \$0.7 million decrease in accounts payable due to the timing of payments.

Cash used in operating activities for the six months ended June 30, 2017 was \$30.2 million. Our net loss of \$2.9 million was decreased by non-cash charges of \$2.6 million for depreciation and amortization and \$0.5 million for stock-based compensation. Cash used in operating activities reflected a change in net operating assets of \$30.6 million, primarily due to a decrease in our deferred revenue balance of \$28.6 million from the recognition of revenue pertaining to payments received from our collaborators Celgene and EMD Serono during prior periods and a decrease in accrued bonus compensation of \$0.9 million driven primarily by the payment of prior year accrued bonuses, which were offset by an increase in the current period accrual due to higher headcount and a decrease of \$0.8 million in accounts payable due to timing of payments.

Cash used in operating activities for the year ended December 31, 2017 was \$37.1 million. Our net loss of \$19.7 million was decreased by non-cash charges of \$5.0 million for depreciation and amortization, \$2.7 million for an impairment charge on certain equipment, \$1.4 million for stock-based compensation and \$0.4 million in other non-cash charges. Cash used in operating activities reflected a change in net operating assets of \$26.9 million, primarily due to a decrease in our deferred revenue balance of \$25.6 million from the recognition of revenue pertaining to payments received from our collaborators Celgene and EMD Serono during prior periods, and an increase in accounts receivable of \$1.0 million due to higher research and development services revenues from our collaborators Celgene and EMD Serono.

Cash used in operating activities for the year ended December 31, 2016 was \$13.2 million. Our net income of \$1.7 million was increased by non-cash charges of \$5.7 million for depreciation and amortization, \$1.0 million for stock-based compensation and \$0.2 million for amortization of premium on marketable securities. Cash used in operating activities reflected a decrease in net operating assets of \$21.7 million, primarily due to a decrease in our deferred revenue balance of \$23.1 million from the recognition of revenue pertaining to payments received from our collaborators Celgene and EMD Serono during prior periods, an increase in accrued bonus compensation of \$1.2 million driven primarily by higher headcount and an increase of \$0.9 million in accounts payable due to a higher level of research and development activities.

### *Cash Flows from Investing Activities*

Cash used in investing activities of \$0.4 million for the six months ended June 30, 2018 was related to purchases of property and equipment, principally for laboratory and manufacturing equipment and leasehold improvements.

Cash provided by investing activities of \$24.8 million for the six months ended June 30, 2017 was related to proceeds from maturities of marketable securities of \$27.9 million and sales of marketable securities of \$3.8 million, partially offset by purchases of marketable securities of \$5.0 million and purchases of property and equipment of \$1.8 million, principally for laboratory and manufacturing equipment and leasehold improvements.

Cash provided by investing activities of \$32.6 million for the year ended December 31, 2017 was related to proceeds from maturities of marketable securities of \$34.9 million and sales of marketable securities of \$15.2 million, partially offset by purchases of marketable securities of \$14.2 million and purchases of property and equipment of \$3.3 million, principally for laboratory and manufacturing equipment and leasehold improvements.

## Table of Contents

Cash provided by investing activities of \$9.6 million for the year ended December 31, 2016 was related to proceeds from maturities of marketable securities of \$57.8 million and sales of marketable securities of \$8.5 million, partially offset by purchases of marketable securities of \$52.3 million and purchases of property and equipment of \$4.4 million, principally for laboratory and manufacturing equipment and leasehold improvements.

### Cash Flows from Financing Activities

Cash provided by financing activities of \$32.8 million for the six months ended June 30, 2018 was primarily related to the net proceeds from our issuance of Series E redeemable convertible preferred stock of \$33.2 million, partially offset by the payment of \$0.5 million in financing costs related to this offering.

Cash provided by financing activities of \$38,000 for the six months ended June 30, 2017 was related to proceeds from the issuances of common stock from the exercise of stock options.

Cash provided by financing activities of \$14.6 million for the year ended December 31, 2017 was primarily related to the proceeds from our debt with Oxford and SVB, net of issuance costs, of \$14.8 million and partially offset by the payment of \$0.3 million in financing costs related to this offering.

Cash provided by financing activities of \$0.2 million for the year ended December 31, 2016 was related to proceeds from the issuances of common stock from the exercise of stock options.

### Contractual Obligations and Other Commitments

The following table summarizes our contractual obligations as of December 31, 2017:

	Payments Due by Period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
	(in thousands)				
<b>Contractual obligations:</b>					
Debt, principal(1)	\$ —	\$ 11,000	\$ 4,000	\$ —	\$ 15,000
Debt, interest(2)	1,173	1,524	666	—	3,363
Operating lease obligations	3,540	7,426	3,195	—	14,161
<b>Total contractual obligations</b>	<b>\$ 4,713</b>	<b>\$ 19,950</b>	<b>\$ 7,861</b>	<b>\$ —</b>	<b>\$ 32,524</b>

- (1) Represents principal payments only. We will pay interest on outstanding indebtedness based on the rates and terms summarized in Note 7 to our audited financial statements included elsewhere in this prospectus.
- (2) Represents interest expense expected to be incurred on our debt based on obligations outstanding and rates effective at December 31, 2017, including a final one-time payment of \$0.6 million.

In addition, we enter into agreements in the normal course of business with contract research organizations for clinical trials and with vendors for preclinical studies and other services and products for operating purposes, which are generally cancelable upon written notice. These payments are not included in this table of contractual obligations.

### Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements, as defined under SEC rules. While we have an investment classified as variable interest entity, its purpose is not to provide off-balance sheet financing.

### **Critical Accounting Policies and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in the notes to our financial statements included elsewhere in this prospectus, we believe that the following critical accounting policies are most important to understanding and evaluating our reported financial results.

#### ***Revenue Recognition***

We generate revenue from collaboration and license agreements for the development and commercialization of our product candidates. Under our collaboration agreements, we may receive non-refundable upfront payments, funding for research and development services, milestones, other contingent payments and royalties. In assessing the appropriate revenue recognition related to a collaboration agreement, we first determine whether an arrangement includes multiple elements, such as the delivery of intellectual property rights and research and development services.

Typically, access to the intellectual property rights under our collaboration agreements do not have stand-alone value from the other elements within the arrangement. As such, upfront payments are recorded as deferred revenue in the balance sheet and are recognized as collaboration revenue over the estimated period of performance that is consistent with the terms of the research and development obligations contained in the collaboration

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. For multiple-element arrangements, each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting if both of the following criteria are met: (i) the delivered item or items has value to the customer on a stand-alone basis and (ii) for an arrangement that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in management's control.

We recognize revenue from milestone payments when: (i) the milestone event is substantive and its achievability has substantive uncertainty at the inception of the agreement and (ii) we have completed our performance obligations related to the achievement of the milestone. Milestone payments are considered substantive if all of the following conditions are met: the milestone payment (a) is commensurate with either our performance subsequent to the inception of the arrangement to achieve the milestone or the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from our performance subsequent to the inception of the arrangement to achieve the milestone, (b) relates solely to past performance and (c) is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Determining whether and when these revenue recognition criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of

reported revenue. Changes in assumptions or judgments or changes to the elements in an arrangement could cause a material increase or decrease in the amount of revenue that is reported in a particular period.

Under certain collaborative arrangements, we are entitled to payments for certain research and development activities, including providing product and other related materials. Our policy is to account for such payments by our collaboration partners as collaboration revenue.

#### **Research and Development**

We record accrued expenses for estimated costs of our research and development activities conducted by third party service providers, which include outsourced research and development expenses, professional services and contract manufacturing activities. We record the estimated costs of research and development activities based upon the estimated amount of services provided but not yet invoiced, and include these costs in current liabilities in the balance sheets and within research and development expense in the statements of operations.

Nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities are deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed.

For outsourced research and development expenses, such as professional fees payable to third parties for preclinical studies, clinical trials and research services and other consulting costs, we estimate the expenses based on the services performed, pursuant to contracts with research institutions that conduct and manage preclinical studies, clinical trials and research services on our behalf. We estimate these expenses based on discussions with internal management personnel and external service providers as to the progress or stage of completion of services and the contracted fees to be paid for such services. If the actual timing of the performance of services or the level of effort varies from the original estimates, we will adjust the accrual accordingly. Payments made to third parties under these arrangements in advance of the performance of the related services by the third parties are recorded as prepaid expenses until the services are rendered.

#### **Stock-Based Compensation**

We recognize compensation costs related to stock options granted to employees based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. We estimate the grant date fair value, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. The grant date fair value of the stock-based awards is generally recognized on a straight-line basis over the requisite service period, which is generally the vesting period of the respective awards.

The Black-Scholes option-pricing model requires the use of highly subjective assumptions to determine the fair value of stock-based awards, including the expected term and the price volatility of the underlying stock. These assumptions include:

- *Expected term*—The expected term represents the period that the stock-based awards are expected to be outstanding. We used the “simplified” method to determine the expected life of options granted, which calculates the expected term as the average of the weighted-average vesting term and the contractual term of the option.
- *Expected volatility*—Since we are not yet a public company and do not have any trading history for our common stock, the expected volatility was estimated based on the average historical volatilities of common stock of comparable publicly traded entities over a period equal to the expected term of the stock option grants. We will continue to apply this process until a sufficient amount of historical information regarding the volatility of our own stock price becomes available.

---

## Table of Contents

- *Risk-free interest rate*—The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term of the options.
- *Expected dividend*—We have never paid dividends on our common stock and have no plans to pay dividends on our common stock. Therefore, we used an expected dividend yield of zero.

In addition to the assumptions used in the Black-Scholes option-pricing model, we must also estimate a forfeiture rate to calculate the stock-based compensation for our awards. We will continue to use judgment in evaluating the expected volatility, expected terms and forfeiture rates utilized for our stock-based compensation calculations on a prospective basis.

Historically, for all periods prior to this initial public offering, the fair value of the shares of common stock underlying our share-based awards were estimated on each grant date by our board of directors. In order to determine the fair value of our common stock underlying option grants, our board of directors considered, among other things, timely valuations of our common stock prepared by an unrelated third-party valuation firm in accordance with the guidance provide by the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. For each of the valuation dates during the years ended December 31, 2016 and 2017, we applied the Guideline Publicly Traded Company Analysis (Life Science Expected Compound Method) for the valuation of our equity. We were at an early stage of development and future liquidity events were difficult to forecast. We therefore used the option-pricing method, or OPM, to determine the estimated fair value of our common stock. In an OPM framework, shares are valued by creating a series of call options with exercise prices based on the liquidation preferences and conversion terms of each equity class. The estimated fair values of the preferred and common stock are inferred by analyzing these options. For the valuation dates during the six months ended June 30, 2018, the equity value was allocated using the OPM and the Probability Weighted Expected Return Method, or PWERM, or the hybrid method. The hybrid method applied the PWERM utilizing the probability of going public and the OPM was utilized in the remaining private scenario. The hybrid method was used commencing May 31, 2018 because of a near-term potential IPO scenario that also factored in the inherent uncertainty associated with being able to complete an IPO.

Given the absence of a public trading market for our common stock, our board of directors exercised reasonable judgment and considered a number of objective and subjective factors to determine the best estimate of the fair value of our common stock, including important developments in our operations, our stage of development, valuations performed by an independent third party valuation firm, sales of our redeemable convertible preferred stock, actual operating results and financial performance, the conditions in the biotechnology industry and the economy in general, the stock price performance and volatility of comparable public companies, the lack of liquidity of our common stock, and the likelihood of achieving a liquidity event, such as an initial public offering or sale.

After the completion of this offering, our board of directors will determine the fair value of each share of underlying common stock based on the closing price of our common stock as reported on the date of grant.

The intrinsic value of all outstanding options as of June 30, 2018 was \$        million based on an assumed initial public offering price of \$        per share, the midpoint of the price range set forth on the cover of this prospectus.

### ***Redeemable Convertible Preferred Stock Warrants***

We have issued freestanding warrants to purchase shares of redeemable convertible preferred stock. We account for these warrants as a liability in our financial statements and they are recorded at their estimated fair value, because the warrants may conditionally obligate us to transfer assets at some point in the future due to redemption provisions that are outside our control.

---

## [Table of Contents](#)

The fair value of the warrants at the issuance date, December 31, 2016 and 2017 and June 30, 2018 was determined using the Option Pricing Method. The warrants are re-measured at each financial reporting period with any changes in fair value being recognized in the other income (expense), net in the statement of operations. We will continue to adjust the liability for changes in fair value until the earlier of the expiration of the warrants, exercise of the warrants, or conversion of the redeemable convertible preferred stock warrants into common stock warrants upon the completion of a liquidation event, including the completion of an initial public offering.

### **Income Taxes**

As of December 31, 2017, we had federal net operating loss, or NOL, carryforwards of \$91.6 million and federal general business credits from research and development expenses totaling \$7.4 million, as well as state NOL carryforwards of \$65.2 million and state research and development credits of \$7.8 million. If not utilized, the federal NOL carryforwards will expire at various dates beginning in 2032, and the federal credits will expire at various dates beginning in 2023. The state NOL carryforwards will expire at various dates beginning in 2030, if not utilized. The state research and development tax credits can be carried forward indefinitely.

Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Tax Reform Act of 1986, or the Tax Reform Act, as amended, and similar state provisions. The annual limitation may result in the expiration of NOLs and credits before utilization. We have performed a Section 382 study for the period of June 16, 2003 through December 31, 2016 and concluded that it is more likely than not that we experienced an ownership change on April 9, 2007. This change does not limit our ability to use our existing NOLs within the carryforward period provided by the Internal Revenue Code, subject to availability of taxable income. We may have experienced a further ownership change in connection with the Series E redeemable convertible preferred stock financing, as a result of the price at which the shares were issued and the number of shares that were issued. Moreover, we may experience ownership changes in the future as a result of this offering and the concurrent private placement or subsequent shifts in our stock ownership, some of which are outside our control. If there is a subsequent event or further change in ownership, these losses may be subject to limitations, resulting in their expiration before they can be utilized.

We assess all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position's sustainability and is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and we will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

### **Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate sensitivities. The primary objective of our investment activities is to preserve our capital to fund our operations. We also seek to maximize income from our investments without assuming significant risk. To achieve our objectives, we maintain a portfolio of cash equivalents and investments in a variety of securities of high credit quality.

We had cash and cash equivalents \$22.0 million and \$25.4 million as of December 31, 2017 and June 30, 2018, respectively, which consisted of deposits, money market funds, commercial paper,

---

## Table of Contents

corporate debt securities and U.S. government agency securities. Such interest earning instruments carry a degree of interest rate risk; however, historical fluctuations in interest income have not been significant.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

As of December 31, 2017 and June 30, 2018, we had \$14.6 million and \$14.8 million, respectively, in debt outstanding, net of debt discount. Our debt with Oxford and SVB bears interest at a floating rate that equals the greater of 7.39% or the sum of the 30-day U.S. Dollar LIBOR plus 6.40% and has a maturity date of August 1, 2021. Such interest-bearing debt carries a limited degree of interest rate risk. If overall interest rates had increased or decreased by 100 basis points during the periods presented our interest expense would not have been materially affected.

### **JOBS Act Accounting Election**

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies.

We have elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

We will remain an emerging growth company until the earliest of (1) the last day of our first fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenues of at least \$1.07 billion, or (ii) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700.0 million as of the prior June 30th and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period.

### **Recent Accounting Pronouncements**

See Note 2 to our financial statements included elsewhere in this prospectus for more information.

## BUSINESS

### Overview

We are a clinical stage drug discovery, development and manufacturing company focused on leveraging our proprietary integrated cell-free protein synthesis platform, XpressCF, to create a broad variety of optimally designed, next-generation protein therapeutics for cancer and autoimmune disorders. We aim to design therapeutics using the most potent modalities, including cytokine-based immuno-oncology, or I/O therapeutics, antibody-drug conjugates, or ADCs, and bispecific antibodies that are directed primarily against clinically validated targets where the current standard of care is suboptimal. We believe our platform allows us to accelerate the discovery and development of potential first-in-class and best-in-class molecules by enabling the rapid and systematic evaluation of protein structure-activity relationships to create optimized homogeneous product candidates. Our mission is to transform the lives of patients by using our XpressCF Platform to create medicines with improved therapeutic profiles for areas of unmet need.

Our two most advanced product candidates are wholly owned: STRO-001, an ADC directed against CD74, for patients with multiple myeloma and non-Hodgkin lymphoma, or NHL, and STRO-002, an ADC directed against folate receptor-alpha, or FolR $\alpha$ , for patients with ovarian and endometrial cancers. STRO-001 is currently enrolling patients in a Phase 1 trial, with initial safety data expected in mid-2019. We plan to submit an investigational new drug, or IND, application for STRO-002 to the U.S. Food and Drug Administration, or FDA, in the fourth quarter of 2018. We have also entered into multi-target, product-focused collaborations with leaders in the field of oncology, including a cytokine derivatives collaboration with Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, or Merck, a B Cell Maturation Antigen, or BCMA, and an immuno-oncology directed alliance with Celgene Corporation, or Celgene, and an oncology-focused collaboration with Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name "EMD Serono").

Our XpressCF Platform is the first and only current Good Manufacturing Practices, or cGMP, compliant scalable cell-free protein synthesis technology that has resulted in products in clinical development. We believe key advantages of our cell-free protein synthesis platform over conventional biologic drug discovery and development include:

- ability to rapidly produce a wide variety of protein structures in-house;
- ability to incorporate multiple, different non-natural amino acids in a single protein;
- faster cycle time;
- efficient drug discovery and early pharmacology and safety assessment; and
- rapid and predictable scalability.

We plan to leverage these capabilities to accelerate the discovery and development of potential first-in-class and best-in-class molecules.

The benefits of our XpressCF Platform have resulted in collaborations with leaders in the field of oncology, including Merck, Celgene and EMD Serono. As a result of discovery efforts enabled through our XpressCF Platform, Merck has the right to develop cytokine derivatives for cancer and autoimmune disorders. Additionally, Celgene has the right to develop up to four anti-cancer bispecific antibodies and ADCs. The lead candidate in this collaboration is a novel ADC therapeutic directed against BCMA for which an IND submission is expected in early 2019. Under the collaboration with EMD Serono, we are using our XpressCF Platform to discover and develop mono, bispecific or multispecific ADC product candidates against up to six cancer targets. The most advanced candidate in this collaboration



---

## [Table of Contents](#)

is a bispecific ADC that is currently undergoing preclinical studies. To date, we have received in aggregate approximately \$330.0 million in payments from all of our collaborations, which includes \$43.7 million in investments in our stock. We intend to selectively enter into additional collaborations with partners who are seeking efficient and effective drug discovery, preclinical development and manufacturing capabilities for the creation of novel therapeutics.

Our first internally developed product candidate is STRO-001, which we believe has the potential to be a first-in-class and best-in-class ADC directed against CD74, an antigen that is highly expressed in many B cell malignancies. In multiple preclinical models, STRO-001 has demonstrated potent anti-tumor activity. In addition, the properties of STRO-001 suggest a low likelihood of off-target toxicity and potential for an improved therapeutic index. STRO-001 is currently enrolling patients in a Phase 1 trial for multiple myeloma and NHL and we expect initial safety data in mid-2019.

We are also internally developing STRO-002, an ADC directed against FolR $\alpha$ , initially targeted for the treatment of ovarian and endometrial cancers. Our experiments show that FolR $\alpha$  expression can be detected in 90% or more of ovarian and endometrial cancers. In preclinical models, STRO-002 has demonstrated the potential for enhanced and selective activity against cells expressing FolR $\alpha$ , superior inhibition of tumor growth and greater linker stability, in comparison to experiments we conducted with a benchmark FolR $\alpha$ -targeting molecule. We expect to submit an IND for STRO-002 in the fourth quarter of 2018.

Although we believe our product candidates have the potential to be first-in-class and/or best-in-class and to provide potent anti-tumor activity with reduced off-target toxicity, we will need to complete additional studies to determine the safety and efficacy of our product candidates. The results of these future studies may be different than the results of our earlier studies. We have not received regulatory approval for any of our product candidates, and in order to obtain regulatory approval and commercialize our product candidates, the FDA or foreign regulatory agencies will need to determine that our product candidates are safe and effective. We may not obtain regulatory approval on the timeline we currently expect, or at all, and competing therapies and products may ultimately reach the market faster or have more favorable safety and efficacy profiles than our products candidates.

Beyond these wholly owned programs and collaborations, we are developing a broader pipeline of next-generation protein therapeutics using our XpressCF Platform. Our protein engineering and chemistry efforts are focused on maximizing therapeutic indices, and our technology allows us to rapidly test our therapeutic hypothesis in significantly more product candidates than conventional protein synthesis allows in order to identify the best molecule to advance to the clinic. Our drug discovery teams are exploring novel immuno-oncology therapies, including cytokine-based therapies. We are also actively pursuing the discovery and development of other novel ADC and bispecific antibodies and currently have four ADC and two bispecific T cell-engager discovery programs.

### **Our Strategy**

Our goal is to use our proprietary XpressCF Platform to create cytokine-based immuno-oncology therapeutics, ADCs and bispecific antibodies primarily against clinically validated targets. Key elements of our strategy are to:

- **Advance STRO-001 and STRO-002 through clinical development.** We are currently evaluating STRO-001 in a Phase 1 trial for patients with advanced and/or refractory multiple myeloma and NHL. Based on compelling preclinical data, we believe STRO-001 has the potential to be a first-in-class and best-in-class ADC directed against CD74, which is highly expressed in many B cell malignancies. We have initiated the Phase 1 trial and expect initial safety data in mid-2019. We are currently conducting IND-enabling studies for STRO-002 for the treatment of patients with ovarian and endometrial cancers that express the clinically

validated target, FolR $\alpha$ . Given STRO-002's homogeneous design, we believe it could be a best-in-class FolR $\alpha$ -targeted ADC and provide greater activity, stability and safety as compared to other investigational agents in development. We plan to submit an IND application for STRO-002 to the FDA in the fourth quarter of 2018.

- **Develop a diverse pipeline of novel product candidates with optimal therapeutic profiles.** We intend to build a broad pipeline of optimally designed, next-generation protein therapeutics for cancer and autoimmune disorders using our XpressCF Platform. Our cell-free-based protein synthesis system enables the rapid and systematic evaluation of protein structure-activity relationships, which we believe will accelerate the discovery and development of molecules. We aim to take advantage of the most potent modalities, including cytokines, ADCs and bispecifics, to create drugs that are directed primarily against clinically validated targets where the current standard of care is suboptimal.
- **Strategically pursue additional collaborations to broaden the reach of our XpressCF Platform.** To maximize the value of our XpressCF Platform technology, we have entered into multi-target, product-focused collaborations with leaders in the field of oncology, including a cytokine derivatives collaboration with Merck, a BCMA and immuno-oncology directed alliance with Celgene and an oncology-focused ADC collaboration with EMD Serono. We intend to selectively enter into additional collaborations with partners who are seeking efficient and effective drug discovery and manufacturing capabilities for the development of novel therapeutics. As with our current collaborations, we intend to retain certain development and commercial rights to maximize the future potential value of product candidates discovered and developed using our XpressCF Platform.
- **Maintain worldwide rights to our core product candidates.** We own the worldwide commercial rights to our lead product candidates, STRO-001 and STRO-002. We have assembled a management team with extensive experience in the biopharmaceutical industry, including drug discovery and development through commercialization, and our plan is to independently pursue the development and commercialization of our product candidates. As we continue to advance our products, we may opportunistically pursue strategic partnerships that maximize the value of our pipeline.
- **Selectively expand the scope of our XpressCF Platform into other therapeutic areas.** Due to the versatility of our platform, we can explore additional therapeutic areas outside of oncology, such as autoimmune and metabolic diseases. We intend to make further investment in the development of our XpressCF Platform to expand our pipeline of product candidates.

#### **Cancer Remains a Major Unmet Medical Need**

Cancer is the second leading cause of mortality in the United States, accounting for nearly one in every four deaths. Approximately 40% of Americans will develop cancer and, according to the American Cancer Society, there will be 1.7 million new cases of cancer and 601,000 deaths due to cancer in the United States in 2018.

#### ***Traditional Cancer Therapeutics***

Cancer treatment has traditionally included chemotherapy, radiation, surgery or a combination of these approaches. Chemotherapy agents and other small molecule targeted therapies can be effective in certain types of cancer, but they can also cause toxicities that may lead to life-threatening consequences, lower quality of life or untimely termination of treatment. Furthermore, these agents offer limited efficacy in many types of cancer.

Over the last twenty years, new paradigms of cancer research and treatment have emerged to address the limitations of existing treatments. Some of the most promising new approaches involve biologic therapies, including monoclonal antibodies. Monoclonal antibodies are proteins that bind to

antigen targets on tumor cells and inhibit tumor growth, or block processes that provide nourishment for the tumor. As a drug class, monoclonal antibodies have transformed the treatment of oncology and represent some of the top selling therapies on the market. For example, Rituxan, Herceptin and Avastin dominated the market with over \$20 billion in combined 2017 annual sales.

Despite the success of conventional monoclonal antibodies, they still have limitations. For example, the response seen with monoclonal antibodies can be variable, with some patients responding, while others do not. In addition, the response is often not durable and many patients relapse or become refractory to treatment. Also, safety and tolerability concerns often limit the use of higher, potentially more efficacious doses. We believe our XpressCF Platform will provide enhanced therapeutic approaches for treating cancer to address these unmet needs. A new generation of biologics is emerging, including immuno-oncology agents, ADCs and bispecific antibodies. The expectation is that multiple therapeutic modalities will be used in novel combinations to treat patients and provide the most potent anti-cancer effect.

### ***Immuno-oncology***

The immune system is capable of recognizing and eliminating tumor cells. However, some cancer cells over express proteins, called immune checkpoints, which suppress the immune system, and enable the tumor cells to evade destruction. Immuno-oncology has emerged as a promising new therapeutic approach that aims to enhance anti-tumor immune responses by using monoclonal antibodies to overcome these immune checkpoint blockades.

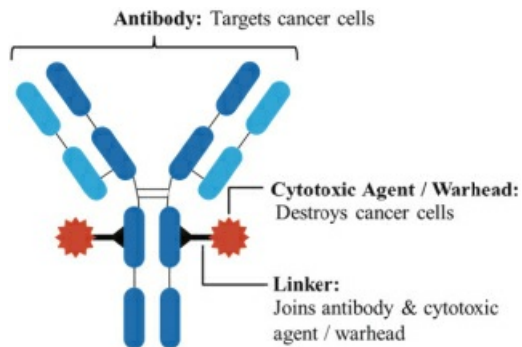
Monoclonal antibody immune checkpoint inhibitors, such as Opdivo, Keytruda and Yervoy, have been approved for the treatment of a number of cancer indications such as, melanoma, non-small cell lung cancer, or NSCLC, renal cancer and bladder cancer. During 2017 the combined sales of these three checkpoint inhibitors were approximately \$10 billion and by 2022, forecasted sales are projected to exceed \$20 billion.

### ***Limitations to Current Immuno-oncology Approaches***

The effectiveness of any cancer immunotherapy is dependent on the status of an individual patient's immune system. While many single-agent immunotherapies have resulted in remarkable clinical results, only a minority of patients have realized durable benefits from these treatments. An immunotherapy cannot succeed if a patient's immune cells are too impaired to benefit from a particular checkpoint inhibitor or cytokine-based therapeutic. As a result, combination therapies have been explored clinically and are designed to provide an additional boost to revive a patient's ability to mount an immune response against their tumor. However, combination therapies will likely have to provide a significant risk-benefit advantage in order to justify the cumulative costs of combining two separate immunotherapies. New single agent approaches to achieving combinatorial stimulation of a patient's immune system may therefore create the preferred option for many patients and physicians.

### **Antibody-Drug Conjugates**

After two decades of industry efforts, several new modalities of highly potent monoclonal antibody-based therapies have emerged, including ADCs. The key components of ADCs include an antibody, a stable linker and a cytotoxic agent (warhead). The antibody is used to target and deliver the cytotoxic agent to tumor cells. ADCs can be mono, bispecific or multi-specific. The intended result of this powerful and targeted approach is greater tumor cell death and less systemic tolerability issues as compared to traditional chemotherapy. The following diagram shows the component parts of an ADC.



Currently, there are more than 100 ADCs being explored in clinical development. Kadcyla and Adcetris are ADCs that have been approved for the treatment of specific subsets of breast cancer and lymphoma, respectively. In the second half of 2017, Besponsa and Mylotarg were approved for the treatment of specific subsets of leukemia. All four of these newly approved therapies demonstrate that ADCs have an emerging role in the armamentarium of cancer therapeutics.

*Limitations to Current ADC Approaches*

Despite the approvals of these ADCs, there have been challenges in achieving the full clinical potential of this modality. We believe these challenges are directly related to the following:

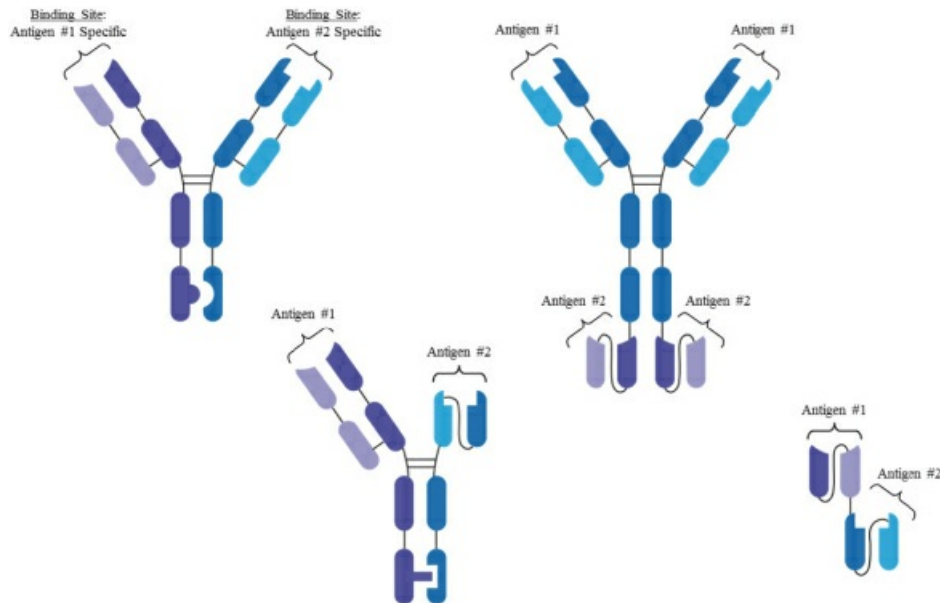
- *Heterogeneity as a Result of Imprecise and Variable Conjugation.* The approved ADCs and many that are in development use imprecise technologies that opportunistically attach the cytotoxic payload to naturally occurring amino acids within the antibody and result in a heterogeneous mixture. In these mixtures, the number and site location of the linker-warhead can vary significantly from antibody to antibody within the single ADC product. These many different forms in the final product are likely to perform differently, with some forms carrying insufficient cytotoxin to kill the tumor, and some forms carrying too high a load resulting in unintended toxicities. The overall performance of the heterogeneous ADC is therefore the average activity of the different species within the ADC mixture, which may limit both efficacy and tolerability. For these reasons, we believe this current class of ADCs, which are heterogeneous mixtures, are suboptimal for effective cancer treatment. The figure below compares homogeneous and heterogeneous ADCs.



- *Suboptimal Linker-Warhead Positioning.* Conventional ADC technologies use conjugation chemistry to attach linker-warheads to naturally occurring amino acids within an antibody; therefore, the position is dictated by the pre-existing amino acid sequence. Published research studies have demonstrated that linker-warhead positioning along an antibody can have significant effect on the ability of an ADC to kill tumor cells, with some positions resulting in suboptimal killing. This position effect also contributes to the challenge of a heterogeneous ADC mixture. We believe that superior ADCs can be developed using technologies that allow linker-warhead positioning to be fine-tuned to empirically determined sites for maximal therapeutic benefit.
- *Instability Due to Linker Design.* One of the major challenges in ADC technology has been to develop linking chemistries that ensure that warheads are only released from the antibody within a tumor cell, and not released within the blood or healthy tissue as the ADC is delivered systemically and travels through the body. We believe that safer ADCs can be developed by utilizing non-natural amino acids that enable state-of-the-art chemistries to ensure that the warhead is not prematurely released.

### ***Bispecific Antibodies***

Bispecific antibodies are engineered proteins that can simultaneously bind to two different types of antigens. Targeting two individual antigens simultaneously is expected to drive a larger clinical impact than conventional monoclonal antibodies. As a class, bispecific antibodies are projected to have potential sales on a worldwide basis of up to \$4.4 billion by 2023 and over 60 molecules are currently in clinical development. Bispecific antibodies can be engineered in a variety of different formats as shown below.



Bispecific antibodies come in a wide variety of structural formats that can be used in multiple therapeutic modalities, including dual blocking bispecific antibodies, T cell-engaging bispecific antibodies and dual antigen targeting bispecific antibodies. Given the potential synergistic nature of these approaches, they have the potential to provide a similar, if not improved, therapeutic benefit as compared to a traditional combination approach. In addition, they may also demonstrate an improved safety and tolerability profile. These characteristics could allow for a wider therapeutic index as compared to the comparable combination therapy approach. Additionally, combining two mechanisms in a single bispecific antibody could have advantages in manufacturing, clinical development and patient convenience.

#### ***Limitations to Current Bispecific Antibody Approaches***

Bispecific antibodies are highly engineered proteins with structural features not found in nature. The generation of these molecules therefore presents significant design and development challenges especially when using conventional cell-based technologies. These challenges include:

- ***Optimization Challenges.*** Bispecific antibodies simultaneously engage two different targets and therefore have precise requirements for the binding properties and spatial orientation of each domain in order to have pharmacologic activity. Combinatorial pairing of antibody binding arms to identify an optimized bispecific antibody requires many distinct cell lines that must be

engineered during the discovery process, a cumbersome process when using conventional cell-based technologies.

- *Challenges to T cell-Engagers.* Discovery of bispecific T cell-engagers is further limited by the challenge of designing bispecific pairs that can safely activate T cells specifically in the tumor environment without activating peripheral T cells, which would result in severe toxicities.
- *Difficulties in Protein Expression and Manufacturing.* Because bispecific antibodies are highly engineered proteins, conventional cell-based systems have significant difficulties in protein expression, particularly at a larger scale.

We believe that new protein engineering technologies will enable significantly broader design opportunities to discover new bispecific antibodies optimized for therapeutic activity, safety and manufacturability.

### **Cytokine-Based Immuno-oncology Therapeutics**

Cytokines are small biologically active proteins that play an essential role in immune cell function. Cytokines are important for cell-to-cell communication and they are responsible for controlling immune cell growth and differentiation. Recombinant human cytokines were among the first biotechnology products engineered for therapeutic use, and, in the field of oncology, cytokines that stimulate the immune system to attack cancer cells have been viewed as a potential new approach.

Certain cytokines play a central role in T cell function, contributing to the careful balance between helpful and harmful immune responses. These can be powerful activators of the immune system but can also suppress immune responses through certain specialized T cells that have suppressive functions. A previously approved cytokine therapeutic Proleukin had shown therapeutic benefit in a small number of cancer patients but its therapeutic use was limited due to toxicity. Scientists at other companies have focused research on finding ways to modify cytokines so as to reduce toxicity while maintaining therapeutic benefit. The observed efficacy of a modified cytokine in combination with an immune checkpoint inhibitor indicates the potential of this new approach. In light of these data and our prior research into cytokines, we commenced a cytokine-based research program using our XpressCF+ Platform technology. We believe that recent advances in immuno-oncology combined with new protein engineering technologies create opportunities to identify novel cytokine-based therapeutics with superior therapeutic indexes.

### **Our Proprietary XpressCF Platform**

While cytokine-based immuno-oncology therapeutics, ADCs and bispecific antibodies hold significant promise, drug developers working with these complex biologics face significant design and development challenges. Optimizing these complex biological structures is a challenging, trial and error process that requires the refinement of several properties in tandem. This iterative process is cumbersome and fraught with significant limitations. As a result, the drug candidate nominated for development is often plagued by inefficient design properties, which then translates to a suboptimal therapeutic index when investigated in the clinic.

Our XpressCF Platform seeks to address these significant shortcomings. We believe our cell-free-based protein synthesis technology allows for efficient and proper design exploration to be conducted prior to nominating a lead drug candidate. In addition, we believe we can optimally design these types of complex biologics in a manner that is ideal for subsequent production at relevant scale and manufacture. We are the only company with products in clinical development that has the capability to produce cell-free-based protein synthesis at scale. We believe we have a significant advantage over other development approaches in this space.

### ***Limitations of Current Cell-Based Synthesis Approaches***

All existing therapeutic proteins rely on cell-based design, production and manufacturing technologies. The conventional biotechnology approach for the production of these complex biologics relies primarily on CHO cell lines. This first requires low yield transient production from cells that enable characterization of a new protein over several months. This is then followed by development of stable cell lines over several months to a year to enable larger scale preclinical, clinical and commercial production. The characterization process has to be reproduced for every minor variant of the therapeutic protein, which may or may not result in improved properties. Each change requires development of new cell-based methods to generate protein of sufficient quality and quantity to evaluate. Therefore, it is extremely laborious and resource intensive to elucidate principles of structure-activity relationship, and drug discovery is limited by the number of cell lines that can be practically managed in parallel. In addition, they have limited ability to introduce non-natural amino acids into proteins. We believe these limitations hinder the efficiency of drug discovery and often result in suboptimal protein selection.

### ***Overview of Our XpressCF Platform***

Our XpressCF Platform is fundamentally different from the conventional cell-based protein synthesis approach in that we separate the production of the cell mass from the production of the protein.

We first generate a cellular mass from our propriety cell line from which we harvest the inner cellular machinery for making proteins. The cellular mass is generated from our highly engineered variant of Escherichia coli, or E.coli bacteria, and has been optimized to make extract that produces complex mammalian proteins. These cells are grown over the course of several days, harvested, broken apart, clarified and stored as a cell mass for future production of our protein therapeutics. We refer to this proprietary cell mass as extract, or XtractCF. The extract includes necessary components for energy production, transcription and translation and can be used to support cell-free protein synthesis. This extract can then be used agnostically to manufacture a wide variety of therapeutic proteins and protein fragments without the need to generate further cell lines.

As a result, protein synthesis then becomes a predictable and reproducible biochemical reaction, independent of the constraints of a cell. A specific DNA sequence is added to the extract, which results in the coding and expression of the desired protein in less than 24 hours. Using this process, we express hundreds or thousands of DNA sequences simultaneously within the same cell-free extract system and therefore can make and purify hundreds or thousands of unique proteins at the same time. This allows us to perform rapid expression, testing and characterization of many variants early in discovery to elucidate structure-activity relationships. Structure-activity relationship refers to how changes to the structure of a protein can lead to improvements in a molecule's properties, such as binding, internalization, functional activity and stability, which are properties that are key to the therapeutic protein's efficacy and tolerability in the patient. We are thereby able to optimize many properties with high specificity including: binding efficiency to each antigen target, spatial orientation, linker design, target killing efficiency, immunological activity, protein expression and folding efficiency and stability.

### ***Advantages of Our XpressCF Platform***

We believe our drug discovery platform provides significant advantages over conventional cell-based protein synthesis approaches and has the ability to produce a large number of variants during the development stage, while preserving the ability to design and test large families of molecules for optimized efficacy and safety features.



We believe the advantages of our cell-free-based protein synthesis technology platform include:

- *Ability to Rapidly Produce and Evaluate a Wide Variety of Protein Structures In-house.* By decoupling the production of the cell-free extract from the production of the protein, we are able to stockpile large quantities of cell-free extract from which we are able to manufacture a wide variety of proteins without the need to generate individual cell lines, including cytokine-based immunology therapeutics, ADCs and bispecific antibodies.
- *Ability to Incorporate Non-Natural Amino Acids.* Our technology allows for efficient incorporation of a non-natural amino acid in any location in an antibody or protein with high precision and fidelity, which we believe allows for the design of optimized protein conjugates.
- *Faster Cycle Time.* Our ability to produce thousands of protein variants in parallel overnight allows us to rapidly express, test and characterize many variants early in discovery to elucidate structure-activity relationships and identify opportunities for superior therapeutic profiles, as well as new intellectual property. We are therefore able to efficiently optimize many properties with high specificity in parallel.
- *Efficient Drug Discovery and Early Pharmacology and Safety Assessment.* Our cell-free technology creates the opportunity for accelerated pharmacology and safety assessments during the design and discovery phase of product development. This approach allows us to generate optimized proteins early in our discovery process, which can be transitioned seamlessly to clinical scale production using the same cell-free process.
- *Rapid and Predictable Scalability.* Our cell-free extract does not need to be modified in any manner as we scale from research to preclinical to clinical to commercial production. This enables us to move more rapidly to the clinic by eliminating master cell banking activities and significantly de-risks scale-up to manufacturing.

*Our XpressCF Solution for cytokine, ADCs and bispecific antibodies-based drug therapeutics*

As a result, we believe our technology enables new approaches to cytokine, ADCs and bispecific antibody-based drug discovery, development and manufacturing. Key attributes are:

- *Homogeneous Design.* Our XpressCF Platform enables precise and specific placement of non-natural amino acids in defined numbers and positions within our engineered proteins. These non-natural amino acids then serve as highly stable attachment sites, also known as conjugation sites, for chemical functional groups. For example, we attach linker-warheads to non-natural amino acids within our antibodies to create single-species, tumor-killing ADCs. Similarly, we attach polyethylene glycol polymers onto non-natural amino acids within our cytokine-based therapeutics to create single-species immunotherapies designed for extended pharmacokinetics and safety.
- *Experimentally Defined Structure-Activity Relationships.* Our cell-free technology enables rational design of protein therapeutics through a rapid, reiterative process that experimentally defines structure-activity relationship for cytokine-based therapeutics, ADCs and bispecific antibodies. This approach allows us to explore a wide variety of structural features and formats in parallel as we optimize therapeutic candidates. For example, the precise location of chemical conjugation sites directly affects the activity of both ADCs and cytokine-based therapeutics. Our proprietary technology is key to our ability to define the best number and positions of non-natural amino acids for conjugation based on: conjugation efficiency; functional activity/pharmacological properties; and pharmacokinetics and safety. This design flexibility is also an important aspect of our discovery approach to other protein therapeutics. For example, we are able to make and directly compare a variety of pairings and structural formats for our immunology bispecific antibody and bispecific T cell-engager programs. This allows us to identify antibody pairs and formats with the best binding properties, spatial orientations and structural stability to create the optimal balance of therapeutic activity and safety.

[Table of Contents](#)

- *Rapid and Efficient Transition from Discovery to the Clinic.* Protein therapeutics can encounter obstacles, or even fail, during the transition from research-grade cell lines to cGMP cell lines appropriate for clinical development and commercialization. Our XpressCF Platform can rapidly produce different protein types from a single proprietary extract, which can be scaled for discovery, development and ultimately, we believe, commercialization of cytokine-based immuno-oncology therapeutics, ADCs and bispecific antibodies and bispecific T cell-engagers.

Accordingly, we use our XpressCF Platform to discover and develop cancer therapeutics by empirically determining the optimum structure-activity relationships for cytokine-based immuno-oncology therapeutics, ADCs, bispecific antibodies, and transitioning those products to cGMP compliant manufacturing. The following chart illustrates the applicability of these attributes across the range of modalities we are developing.

**XpressCF Attributes for Various Therapeutic Modalities**

<b>XpressCF Attribute</b>	<b>ADCs</b>	<b>Bispecific I/O, Bispecific ADCs and Bispecific T cell-engagers</b>	<b>Cytokine-based therapeutics</b>
<b><i>Homogeneous Design</i></b>			
Stable, site-specific attachment of chemical functionality	✓	✓ (if needed)	✓
<b><i>Experimentally Defined Structure-Activity Relationships</i></b>			
Rapid, direct comparison of a wide variety of protein variants	✓	✓	✓
<b><i>Rapid and Efficient Transition from Discovery to the Clinic</i></b>			
Single-source scalability from discovery to clinical / commercial	✓	✓	✓

**Our Collaborations Demonstrate our Capabilities**

Our XpressCF Platform has garnered the attention of leading pharmaceutical and biopharmaceutical companies and resulted in collaborations to discover and develop novel therapeutics. We have leveraged these strategic partnerships to extend our own capabilities and broaden the scope of our XpressCF Platform. To date, all of our collaborations have provided us with approximately \$330.0 million in payments, which includes \$43.7 million in investments in our stock. Our collaborations include:

- ***Merck Programs.*** We have granted Merck the right to jointly develop up to three research programs directed to cytokine derivatives for cancer and autoimmune disorders, including rights to certain prior cytokine-based research efforts.
- ***Celgene Programs.*** We have granted Celgene the right to jointly develop up to four anti-cancer bispecific antibodies and/or ADCs directed primarily to immuno-oncology targets. The lead candidate generated for this collaboration is a novel ADC therapeutic directed against the target BCMA for which an IND submission is expected in early 2019.
- ***EMD Serono Programs.*** We have granted EMD Serono the right to designate up to six cancer targets against which we will discover, develop and optimize up to three mono, bispecific or multi-specific ADC product candidates per target. EMD Serono has selected all six possible target antigens under the strategic research and development partnership. The most advanced candidate in this collaboration is a bispecific ADC, which is currently in preclinical development.





**Our Pipeline of Product Candidates**

Our current product candidates, all based on our proprietary XpressCF Platform, are summarized in the chart below:

SUTRO PROGRAMS	PRODUCT CANDIDATE / PROGRAM	DISCOVERY	PRECLINICAL	PHASE 1	PHASE 2 / 3	ANTICIPATED MILESTONE
	STRO-001 CD74 ADC	Multiple Myeloma; Lymphomas: DLBCL, Mantle Cell, Follicular				Initial safety data expected mid-2019
	STRO-002 FolR $\alpha$ ADC	Ovarian and Endometrial Cancer				IND submission expected 4Q 2018
<hr/>						
COLLABORATION PROGRAM						
	<sup>(a)</sup> BCMA ADC	Multiple Myeloma				IND submission expected early 2019

(a) There are a total of four programs to which Celgene currently has ex-U.S. rights and we currently have U.S. rights. Celgene will automatically obtain worldwide rights to the first product candidate to achieve IND clearance in the United States.

**Our Discovery and Preclinical Programs**

SUTRO PROGRAMS	PROGRAM	THERAPEUTIC AREA	DISCOVERY	PRECLINICAL	PHASE 1	PHASE 2 / 3	ANTICIPATED MILESTONE
	Multiple ADC, Bispecific Antibody (bsAb) & Cytokine-Related Discovery Programs	Oncology	●				
<hr/>							
COLLABORATION PROGRAMS							
	Cytokine Derivatives	Oncology & Autoimmune	●				
	Immuno-oncology bsAb	Oncology		●			IND submission expected 1H 2019
	<sup>(a)</sup> Immuno-oncology bsAb	Oncology		●			
	Immuno-oncology bsAb	Oncology		●			
<hr/>							
	<sup>(b)</sup> Undisclosed Bispecific ADC	Oncology		●			
	Multiple ADC Discovery Programs	Oncology	●				

(a) There are a total of four programs to which Celgene currently has ex-U.S. rights and we currently have U.S. rights. Celgene can obtain worldwide rights to the second product candidate to have an active IND in the United States by making certain payments to us. For the programs that would potentially be the third and fourth to enter clinical development, we own U.S. rights and Celgene owns ex-U.S. rights.

(b) EMD Serono is the U.S. healthcare business of Merck KGaA, Darmstadt, Germany.

**Our Product Candidates**

**STRO-001, an ADC Directed Against the Cancer Target CD74**

*Overview*

We are developing STRO-001, an optimally designed ADC directed against the cancer target CD74 for multiple myeloma and NHL. STRO-001 was designed and optimized for maximal therapeutic index by placing linker-warheads at specific locations within the antibody using our proprietary XpressCF Platform. STRO-001 is currently enrolling patients in a Phase 1 trial and we expect initial safety data in mid-2019.

## Table of Contents

### CD74 Overview and Current Limitations

CD74 is a transmembrane glycoprotein, or a protein with an attached sugar that spans the inside and outside of a cell. While normal tissues appear to have minimal CD74 expression levels, CD74 is an important B cell target for multiple myelomas and lymphomas. CD74 is expressed in approximately 90% of B cell cancers, including multiple myeloma and lymphoma. Additionally, in a study conducted with a collaborator, we found that CD74 was highly expressed in 75% to 98% of tissues samples derived from individual patients with a variety of B cell malignancies, as illustrated in the table below.

Comprehensive Immunohistochemistry Study		
Tumor Subtype	Tissue Samples	
	CD74 Positive / Total	% Positive
Follicular lymphoma	148 / 151	98%
Multiple myeloma	101 / 134	75%
Diffuse large B cell lymphoma	135 / 140	96%
Mantle cell lymphoma	19 / 21	90%

Currently, there are no approved therapeutics that specifically target CD74 for treatment of B cell malignancies. We believe earlier ADCs being developed against the target CD74 were ineffective either because they failed to achieve sufficient killing of malignant B cells or they were unable to achieve a sufficient therapeutic benefit before toxicities limited further dose escalations.

### B Cell Malignancies Overview and Current Limitations

B cell malignancy tumor subtypes include multiple myeloma and NHL, which includes mantle cell lymphoma, diffuse large B cell lymphoma, or DLBCL, and follicular lymphoma. In the United States alone, there are approximately 100,000 new B cell malignancies cases annually, with a prevalence of more than 600,000 cases. Although several therapeutics have recently been approved for the treatment of specific B cell malignancies, including immunotherapies and targeted kinase inhibitors, unmet need persists. These therapeutics are typically used in combination with other agents to provide the most potent anti-cancer effect. While these new therapies have demonstrated improvements in survival, the majority of these patients ultimately relapse during treatment and some experience a resistance to therapy.

### Our Solution, STRO-001

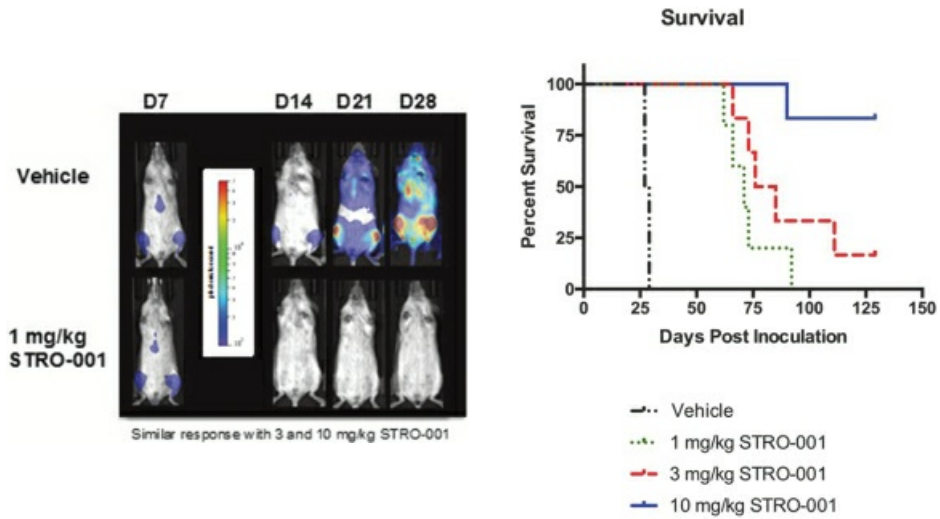
Our first internally developed product candidate is STRO-001, which we believe has the potential to be a first-in-class and best-in-class ADC directed against the cancer target CD74, an antigen that is highly expressed in many B cell malignancies and is an attractive target for an ADC therapeutic, given its rapid internalization by the cell. STRO-001 was developed using our proprietary XpressCF Platform and is composed of an antibody targeting the CD74 protein antigen that is stably conjugated to two specific sites on the antibody using a non-cleavable linker to a highly potent cytotoxic drug, a maytansinoid derivative. STRO-001 degrades inside of tumor cells to release very potent intracellular catabolites whose hydrophilic nature results in poor permeability into surrounding cells. We believe this decreases the potential of off-target effect in normal tissues. From a safety perspective, we designed STRO-001 to have an optimal potency to toxicity ratio. We rationally selected a homogeneous ADC with a drug-antibody ratio, or DAR, of two. Heterogeneous ADCs typically have DARs that range from zero to eight, with lower DARs generally being associated with less potency and higher DARs generally being associated with a negative impact on pharmacokinetics and toxicity. We chose a DAR of two after demonstrating that DARs of four or six did not increase the efficacy of STRO-001.

### Preclinical Data

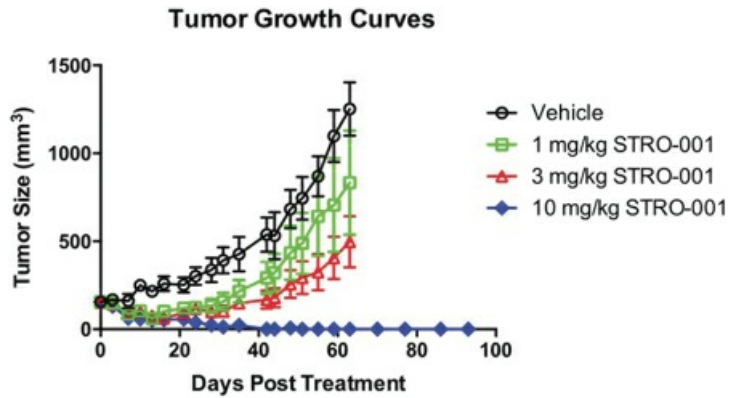
While additional clinical testing will be needed to determine the safety and efficacy of STRO-001 and to obtain regulatory approval, if ever achieved, STRO-001 has demonstrated potent *in vitro* cell

[Table of Contents](#)

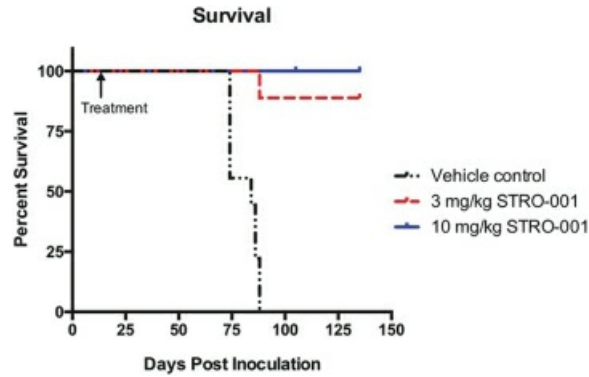
killing activity across multiple B cell tumor lines. Based on these observations, we have used murine tumor models to determine whether STRO-001 also demonstrates cell killing *in vivo*. In these models, human tumor cell lines are implanted and allowed to grow in mice to subsequently test the activity of anti-cancer agents. Although these murine models do not address safety, they are commonly used to provide experimental proof-of-concept for anti-cancer activity against different tumor types. For example, in tumor bearing mice, single intravenous doses of 1, 3, and 10 mg/kg STRO-001 significantly extended survival in the MM1S-luc bioluminescent disseminated human multiple myeloma xenograft model as shown below on the right. The figure on the left shows bioluminescence imaging of tumor cells during the first month after dosing. This image shows that while the bioluminescent tumor cells disseminated throughout the body in the vehicle treated mice, the tumor cells were cleared from the STRO-001 treated mice. Furthermore, at the high dose, when their bone marrow was assessed at day 129, of the surviving five out of six animals, all appeared to be tumor-free.



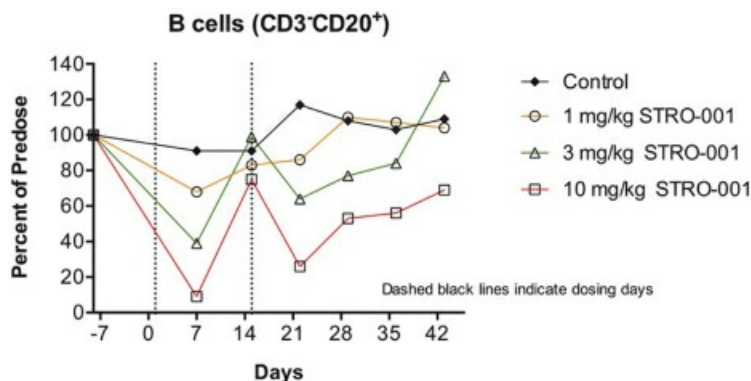
STRO-001 demonstrated similar potent efficacy in a murine xenograft model of human DLBCL, the most common form of NHL. In the study shown below, seven out of seven mice exhibited complete tumor regression with no tumor regrowth 90 days after treatment with a single 10 mg/kg dose of STRO-001. Moderate anti-tumor activity was observed with lower doses of 1 or 3 mg/kg, demonstrating a clear dose-response relationship.



We also examined the potential for STRO-001 to treat human mantle cell lymphoma in a preclinical murine xenograft model. In the study shown below, mice bearing mantle cell tumors had a mean survival of 81 days. In contrast, 90% to 100% of mice treated with a single dose of 3 or 10 mg/kg STRO-001 survived to the end of the study at day 135. Taken together, these studies demonstrate that STRO-001 has potent anti-tumor activity in three different murine models of human B cell malignancy.



We also investigated the safety of STRO-001 in a toxicology study in non-human primates at several dose levels administered on day 1 and day 15. Hematological toxicity was observed consistent with the known effects of the STRO-001 cytotoxic tubulin inhibitor component. No other drug-related toxicities were observed. Importantly, however, we observed clear evidence of STRO-001 pharmacodynamic activity as demonstrated by dose-dependent B cell ablation and recovery as shown below.



*Clinical Development Plan*

The Phase 1 trial for STRO-001 is an open-label study that will evaluate STRO-001 as a monotherapy for patients with multiple myeloma and NHL. The trial will be conducted in two parts: dose escalation and dose expansion. The primary objectives of the trial are to determine the safety and tolerability profile of STRO-001, determine the recommended Phase 2 dose and interval and evaluate preliminary anti-tumor activity. The secondary objectives are to characterize the human pharmacokinetics of STRO-001 and additional safety, tolerability and efficacy measures.

Our Phase 1 trial of STRO-001 is enrolling adult patients with advanced and/or refractory multiple myeloma and NHL (including DLBCL, mantle cell lymphoma and follicular lymphoma) who are refractory to, or intolerant of, all established therapy known to provide clinical benefit for their condition. Multiple myeloma and NHL patients will be enrolled in two separate dose escalation cohorts, starting initially with an accelerated dose titration design. We estimate that there will be approximately 30 patients in each cohort and treatment is scheduled for days one and fifteen in a 28-day cycle.

After the recommended Phase 2 dose level is determined, patients could be enrolled into four dose expansion cohorts (myeloma, DLBCL, mantle cell lymphoma and follicular lymphoma) if anti-tumor activity is observed during the dose escalation phase. We expect to enroll up to 40 patients in each of the four dose expansion cohorts.

We submitted our IND for STRO-001 in December 2017 and the first patient was dosed in April 2018. We expect initial safety data from our ongoing Phase 1 trial in mid-2019.

**STRO-002, an ADC Directed Against the Target Folate Receptor-Alpha (FolR<sub>a</sub>)**

*Overview*

We are developing STRO-002, an optimally designed ADC directed against the cancer target FolR<sub>a</sub>, initially targeted for ovarian and endometrial cancers. STRO-002 was designed and optimized for an improved therapeutic index by placing a precise number of linker-warheads at four specific

## Table of Contents

locations within the antibody using our proprietary XpressCF Platform. We expect to submit the IND for STRO-002 in the fourth quarter of 2018.

### FolRa Overview

FolRa is a cell-surface glycoprotein, which is believed to be important for supporting DNA synthesis in rapidly dividing cancer cells. FolRa exhibits limited expression and distribution in normal tissues.

High levels of FolRa have been found in multiple cancer types, including epithelial ovarian cancer, endometrial adenocarcinoma, triple negative breast cancer and non-small cell lung cancer. Expression appears to correlate with disease progression in ovarian cancer and continues to be expressed following chemotherapy treatment.

In order to better understand FolRa expression, we tested 187 samples in a tissue microarray from ovarian and endometrial cancer patients. The table below shows that more than 90% of ovarian and endometrial cancer tissue samples express FolRa. Furthermore, medium to high levels of expression were observed for 80% of ovarian cancer samples and 78% of endometrial cancer samples.

Tumor Type	FolRa Expression			
	Negative	Low	Medium	High
Ovarian Cancer (90 tissue samples)	10%	10%	16%	64%
Endometrial Cancer (97 tissue samples)	7%	15%	24%	54%

### Ovarian Cancer Overview

Ovarian cancer is the most common cause of cancer death from gynecologic tumors in the United States, and the fifth most common cause of cancer death in women. In the United States alone, there are about 23,000 new cases of ovarian cancer annually, and more than 14,000 women die of this disease each year. Given that early stages of the disease cause minimal, nonspecific symptoms or is asymptomatic, 60% of patients with ovarian cancer are diagnosed in an advanced stage, for which the prognosis is poor. Standard pre- or post-operative chemotherapy for ovarian cancer is combination therapy with a platinum compound and a taxane, for example, carboplatin and paclitaxel, which achieves a complete response in between 70% to 80% of patients. Patients refractory or resistant to platinum-based treatments are then treated with a host of additional palliative chemotherapeutic agents, each showing only marginal benefit. This represents a significant unmet need and multiple therapies are being tested in the clinic for treatment of these patients, including PARP inhibitors and PD-1 checkpoint protein inhibitors.

### Endometrial Cancer Overview

There is also a significant unmet need in the treatment of recurrent or metastatic endometrial cancer. In the United States alone, there are about 60,000 new cases of endometrial cancer annually, and approximately 10,500 patients die of this disease each year. First-line treatment for stage III/IV disease is commonly paclitaxel/carboplatin, with no standard of care or FDA-approved treatment options for recurrent disease. With the lack of available therapies for these patients, long-term survival prospects are poor and novel treatments offering even a modest improvement in progression-free survival or overall survival may be considered for expedited regulatory approval.

### Limitations to Current FolRa-Targeted Therapeutics

There have been a number of folate- or FolRa-targeted therapies in development including naked antibodies, small molecule drug conjugates, ADCs and T cell retargeting molecules. The most clinically active agent targeting FolRa to date has been Immunogen's mirvetuximab soravtansine (IMGN853), an ADC composed of a FolRa-binding antibody linked to the tubulin-disrupting maytansinoid, DM4, via a cleavable linker.



---

## Table of Contents

Immunogen's IMGN853 monotherapy showed clinical activity in a Phase 1 trial of patients with platinum-resistant ovarian cancer, with dose-limiting toxicities including blurred vision, diarrhea, headache, nausea, vomiting and fatigue.

### *Our Solution, STRO-002*

STRO-002 is directed against the cancer target FolR<sub>a</sub>, which is highly expressed in multiple cancer types, including ovarian cancer and endometrial cancer. This property, together with the highly restricted expression of FolR<sub>a</sub> on normal tissues, make FolR<sub>a</sub> a promising ADC approach.

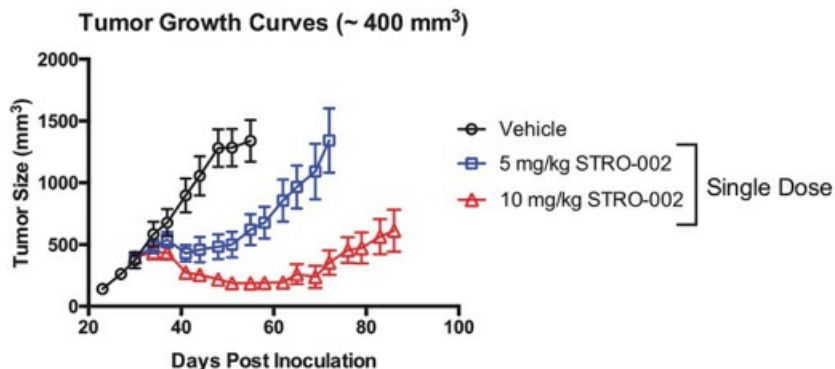
STRO-002 employs a cleavable linker that releases a cytotoxic drug inside of tumor cells, while being stable and resistant to cleavage in general circulation. The cytotoxic drug used is our proprietary hemiasterlin moiety. From a safety perspective, we designed STRO-002 to have the optimal potency to safety ratio. We rationally selected a homogenous ADC with an optimized DAR of four.

Based on preclinical findings, we believe our efficient homogeneous design of STRO-002 could provide anti-tumor activity, stability and safety with the potential to minimize off-target damage and improve clinical impact by reducing dose-limiting toxicities. We believe an improved therapeutic index could differentiate STRO-002 from conventional technology for the treatment of ovarian cancer and endometrial cancer. To test this, we have created a benchmark FolR<sub>a</sub>-targeting surrogate molecule based on conventional technology that has a heterogeneous ADC, with a similar DAR utilizing a DM4 linker-warhead. We have tested this benchmark molecule against STRO-002 in multiple preclinical models. However, additional preclinical and clinical testing will be needed to determine the safety and efficacy of STRO-002 and to obtain regulatory approval, if ever. STRO-002 may not ultimately provide a greater therapeutic benefit than the current standard of care.

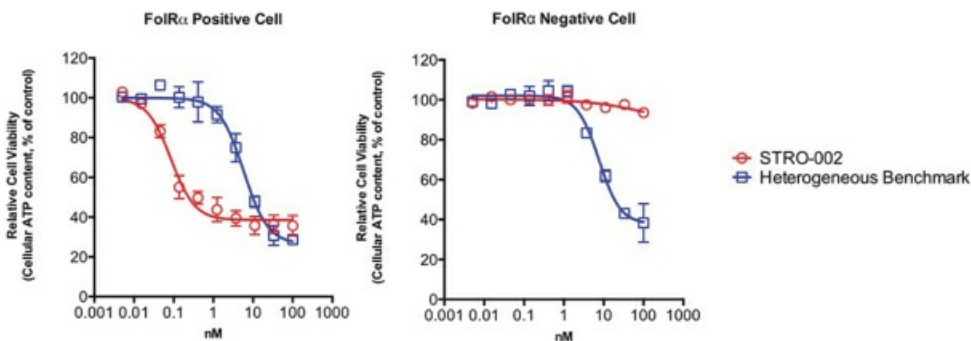
### *Preclinical Data*

STRO-002, in comparison with the benchmark molecule that we created, has demonstrated: enhanced *in vitro* activity on cells expressing FolR<sub>a</sub> and improved specificity on cells that do not express FolR<sub>a</sub>; superior inhibition of tumor growth; and greater *in vitro* and *in vivo* linker stability.

STRO-002 has demonstrated potent *in vitro* cell killing activity across multiple ovarian cancer tumor cell lines. Based on these observations, we have used murine tumor models to determine whether STRO-002 also demonstrates cell killing *in vivo*. In these models, human tumor cells are implanted and allowed to grow in mice to subsequently test the activity of anti-cancer agents. Although these murine models do not address safety, they are commonly used to provide experimental proof-of-concept for anti-cancer activity against different tumor types. As shown in the data below, dose-dependent anti-tumor activity was observed in mice implanted with OVCAR3 human ovarian cancer tumor cells. Importantly, this anti-tumor effect was observed in mice bearing large established tumors, with evidence of tumor regression following a single dose of 10 mg/kg STRO-002.



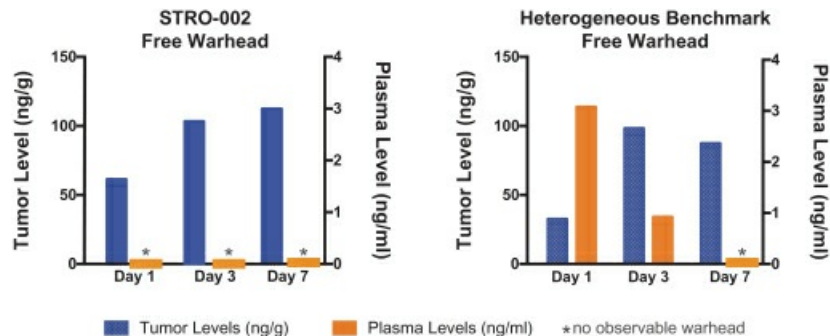
In an effort to better understand the relative activity of our homogeneous STRO-002 molecule we have performed experiments comparing STRO-002 to a benchmark molecule that we created. STRO-002 and the benchmark molecule have comparable DAR and affinity for FolR<sub>a</sub> expressing cells; however, the benchmark is made using conventional ADC technology and is therefore a heterogeneous mixture. The data below demonstrates STRO-002 has more potent *in vitro* cell killing activity compared to the benchmark molecule when tested on cells expressing FolR<sub>a</sub>. In contrast, STRO-002 has minimal if any activity on cells that do not express FolR<sub>a</sub>, while the benchmark molecule kills cells even in the absence of FolR<sub>a</sub>. We believe that the data demonstrate that the homogeneous nature of STRO-002 drives more efficient tumor cell killing with better tolerability for normal tissues.



We used a human ovarian cancer xenograft model to understand the *in vivo* stability of STRO-002 compared to our benchmark molecule. In this model we tested for free warhead, released from the

ADC, in the blood or tumor tissue one, three or seven days after dosing. The data below on the left show that the released, free warhead from STRO-002 is observed in the tumor starting one day after dosing, without evidence of free warhead circulating in the blood at any time point. In contrast, the data on the right shows that free warhead derived from the benchmark molecule can be observed circulating in the blood one day after dosing, which could contribute to unintended toxicities. In other preclinical studies, the hemiasterlin free warhead is cleared rapidly from this circulation. Taken together, we believe that these data demonstrate the stability of STRO-002 *in vivo*, which we believe will contribute to a superior therapeutic index compared to ADCs made using convention technology.

**Murine Tumor Model – Free Warhead in Tumor vs. Blood After Dosing**



We examined the safety of STRO-002 in an exploratory toxicology study in non-human primates. Hematological toxicity was observed consistent with the known effects of the STRO-002 cytotoxic tubulin inhibitor component. No other drug-related toxicities were observed and importantly, there were no observed ocular effects in the non-human primate study.

*Clinical Development Plan*

We expect our Phase 1 trial for STRO-002 to be an open-label study that will evaluate STRO-002 as a monotherapy for patients with ovarian and endometrial cancers. The trial will be conducted in two-parts, dose escalation and dose expansion. The primary objectives of the STRO-002 clinical trial will be to determine the safety and tolerability profile, to define the recommended Phase 2 dose level and interval and to evaluate preliminary anti-tumor activity. Our secondary objectives will be to characterize the human pharmacokinetics and additional safety, tolerability and efficacy measures.

We intend to seek to enroll adult patients with advanced and/or refractory ovarian cancer or endometrial cancer, for whom no suitable treatment exists. These patients are considered to have incurable disease and need repeated courses of life-prolonging and palliative treatment. We believe that ovarian cancer patients will be enrolled in a dose escalation cohort, with treatment frequency and duration yet to be determined. If anti-tumor activity is observed during the dose escalation phase, we would then plan to enroll patients into two dose expansion cohorts (ovarian cancer and endometrial cancer).

We anticipate submitting an IND for STRO-002 in the fourth quarter of 2018.

**Additional Discovery Efforts**

Our technology allows us to rapidly incorporate non-natural amino acids in varying numbers and positions, to identify the best cytokine modification for pharmacological activity, pharmacokinetics and

---

## [Table of Contents](#)

safety. Furthermore, our technology enables rapid preclinical development and transition to cGMP manufacturing, ensuring speed to clinic in a promising field. Our drug discovery teams are exploring novel immuno-oncology therapies, including cytokine-based therapies.

We are also actively researching to identify new ADCs to add to our pipeline. We have four ADC discovery programs ongoing using our XpressCF Platform. Our protein engineering and chemistry efforts are focused on maximizing therapeutic indices, and our technology allows us to rapidly test our therapeutic hypothesis in significantly more product candidates than conventional protein synthesis allows in order to identify the best molecule to advance to the clinic.

Our bispecific antibody drug discovery programs are focused on T cell-engagers. We have two active programs, and we are using our technology to find the optimum protein structure and T cell-engaging properties to maximize safety and efficacy for this promising class of cancer therapeutics.

### **Collaboration and License Agreements**

#### ***Merck Collaboration***

In July 2018, we entered into the 2018 Merck Agreement with Merck to jointly develop up to three research programs focusing on cytokine derivatives for cancer and autoimmune disorders.

Upon signing the 2018 Merck Agreement, Merck agreed to pay us an upfront payment of \$60.0 million for the research and development of two target programs, and Merck purchased \$20.0 million in Series E redeemable convertible preferred stock from us. Under the 2018 Merck Agreement, we are eligible to receive financial support for our research and development efforts based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate. Additionally, we are eligible to receive another milestone payment if a third target program is selected, and Merck has agreed to purchase up to \$10.0 million of our common stock concurrently with the closing of this offering.

Under the terms of the 2018 Merck Agreement, we are eligible to receive aggregate milestone payments of up to \$1.6 billion, assuming the development and sale of all therapeutic candidates and all possible indications identified under the collaboration. If one or more products from each of the target programs are developed for non-oncology or a single indication, we will be eligible for reduced aggregate milestone payments. In addition, we are eligible to receive tiered royalties ranging from mid-single digit to low teen percentages on the worldwide sales of any commercial products that may result from the collaboration.

The 2018 Merck Agreement expires on a product-by-product and country-by-country basis upon the later of the expiration of the patents covering products licensed under the 2018 Merck Agreement or ten years after the first commercial sale of a product covered by the 2018 Merck Agreement. Upon expiration, Merck will have a fully paid-up, royalty-free, perpetual, and irrevocable non-exclusive license, with the right to grant sublicenses, under certain of our intellectual property rights.

Merck may terminate the 2018 Merck Agreement at any time with 60 days' prior written notice. Either we or Merck has the right to terminate the 2018 Merck Agreement based on the other party's uncured material breach or bankruptcy.

#### ***Celgene Collaboration***

In September 2014, we entered into a Collaboration and License Agreement with Celgene, or the 2014 Celgene Agreement, to discover and develop bispecific antibodies and ADCs focused primarily on the field of immuno-oncology, using our proprietary integrated cell-free protein synthesis platform, XpressCF. Under the 2014 Celgene Agreement, we received upfront payments totaling \$95.0 million in

---

## Table of Contents

September 2014, which included an \$11.9 million equity investment, and additional payments totaling \$60.0 million.

In August 2017, we entered an Amended and Restated Collaboration and License Agreement with Celgene, or the 2017 Celgene Agreement, to refocus our 2014 Celgene Agreement on four programs that are advancing throughout preclinical development, which are:

- *BCMA ADC.* The most advanced product candidate under collaboration is a BCMA ADC product candidate, which has been designated as a development candidate by Celgene for the treatment of multiple myeloma. We believe Celgene currently plans to submit an IND for this product candidate in early 2019. We currently own the development and commercial rights in the United States to this BCMA ADC product candidate; however, assuming it is the first development candidate from our 2017 Celgene Agreement to have an active IND in the United States, Celgene will then automatically own worldwide development and commercialization rights to such product.
- *Bispecific Antibodies.* The other three product candidates subject to our Celgene collaboration are bispecific antibodies, all of which have been designated as development candidates by Celgene. The second most advanced product candidate under the Celgene collaboration is an immuno-oncology bispecific antibody product candidate. We believe Celgene currently plans to submit an IND for this product candidate in the first half of 2019. We currently own the rights to develop and commercialize these product candidates in the United States; however, assuming the second development candidate from our 2017 Celgene Agreement achieves an active IND in the United States, and Celgene makes the required payments to us, then Celgene will automatically own worldwide development and commercialization rights to such second product.

Upon signing of the 2017 Celgene Agreement, we received an option fee payment of \$12.5 million in August 2017 and are eligible to receive a second option fee payment of \$12.5 million following the first IND clearance, if any, for one of the four programs, if Celgene desires to maintain its option to acquire the U.S. rights to develop and commercialize a second collaboration program to reach IND status. If Celgene exercises its option to acquire from us U.S. rights to a second collaboration program, it will make an option exercise fee payment to us, the amount of which depends on which program reaches IND status.

We have received and will be eligible to receive financial support for research and development services assigned to us by Celgene, based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate.

Under the terms of the 2017 Celgene Agreement, we are entitled to earn development and regulatory contingent payments for each of the four programs under the collaboration, and royalties on sales of any commercial products that may result from the 2017 Celgene Agreement. Additionally, we are eligible to receive a potential future payment for manufacturing activities of \$10.0 million. For licensed products for which Celgene holds worldwide rights, we are eligible to receive aggregate milestone and option fee payments of up to \$295.0 million for certain licensed products and up to \$393.7 million for certain other licensed products under the collaboration, if approved in multiple indications, and, depending on the licensed product, tiered royalties ranging from single digit to low teen percentages on worldwide sales of any commercial products that may result from the 2017 Celgene Agreement. Additionally, for licensed products for which Celgene holds ex-U.S. rights, we will also be eligible to receive pre-commercial contingent payments and tiered royalties ranging from mid to high single digit percentages.

Celgene may terminate the 2017 Celgene Agreement at any time with 120 days' prior written notice. Either we or Celgene has the right to terminate the 2017 Celgene Agreement based on the

other party's uncured material breach, challenge of the validity and enforceability of intellectual property, or bankruptcy.

***EMD Serono Collaboration***

In September 2014, we entered into a License Agreement with EMD Serono, or the MDA Agreement, to develop ADCs for multiple cancer targets, which replaced the Collaboration Agreement we had entered into with EMD Serono in May 2014, or the Collaboration Agreement. The most advanced program in the collaboration is a bispecific ADC drug candidate for which we expect the initiation of IND-enabling studies in 2019.

Upon signing the Collaboration Agreement, we received \$10.0 million in an upfront payment. In addition, upon signing the MDA Agreement, we received an additional \$10.0 million in an upfront payment and receive financial support for our research and development services based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate. As of June 30, 2018, we had received approximately \$7.0 million in funding support for research and development services. We anticipate entering into a manufacturing supply agreement with EMD Serono to provide them with product candidate materials for IND-enabling and clinical studies.

We are eligible to receive up to \$52.5 million for each product developed under the MDA Agreement, primarily from pre-commercial contingent payments. In addition, we are eligible to receive tiered royalties ranging from low to mid single digit percentages, along with certain additional one-time royalties, on worldwide sales of any commercial products that may result from the MDA Agreement. The MDA Agreement term expires on a product-by-product and country-by-country basis upon the later of the expiration of the patents covering products licensed under the MDA Agreement or ten years after the first commercial sale of a product covered under the MDA Agreement. Upon expiration, EMD Serono will have a fully paid-up, royalty-free, perpetual, and irrevocable non-exclusive license, with the right to grant sublicenses, under certain of our intellectual property rights.

EMD Serono may terminate the MDA Agreement at any time with 90 days' prior written notice or upon our inability to provide EMD Serono access to a specified number of cancer drug targets. Either we or EMD Serono has the right to terminate the MDA Agreement based on the other party's uncured material breach or bankruptcy.

***Stanford License***

In October 2007, we entered into an Amended and Restated Exclusive Agreement, or the Stanford License, with the Board of Trustees of the Leland Stanford Junior University, or Stanford, that grants us an exclusive license, with the right to sublicense, under the patent rights owned by Stanford covering certain technology rights related to our XpressCF expression system.

Upon initiation of the agreement, we made a payment to Stanford of approximately \$83,000, of which a portion was creditable against certain prior patent costs incurred by Stanford, reimbursement of certain out-of-pocket costs incurred by Stanford in patent filing, prosecution and maintenance of approximately \$184,000, and issued shares of our common stock to Stanford. We are required to make milestone payments to Stanford of up to approximately \$930,000 on the accomplishment of certain development and regulatory milestones, of which \$180,000 has been paid through June 30, 2018, with a \$750,000 payment due upon first commercial sale of the first licensed product consisting of a molecule or compound covered by the licensed patent rights, or the 14th anniversary of the Stanford License in October 2021. Additionally, we owe Stanford annual license maintenance fees of \$75,000, which may be creditable against earned royalties in such year, and are required to reimburse Stanford for ongoing patent-related costs. We are also required to pay to Stanford low single digit royalties on net sales and to share any sublicensing income received related to the licensed technology. We may terminate the agreement at any time upon 30 days' written notice.

### ***SutroVax Investment***

In 2013, we and Johnson & Johnson Innovation, through the Johnson & Johnson Development Corporation, provided initial co-funding for a new company called SutroVax, Inc., or SutroVax, with which we have a license agreement. Under the agreement, SutroVax has the right to use the XpressCF Platform to discover and develop vaccine candidates for the treatment or prophylaxis of infectious diseases. The lead program for SutroVax is a broad-spectrum pneumococcal conjugate vaccine. SutroVax is responsible for performing all research and development activities, and we provide technical support and supply XtractCF and other materials to SutroVax.

We retain an ownership interest in SutroVax and are eligible for single digit royalties on net sales of any vaccine candidates. Also, we retain the right to discover and develop vaccines for the treatment or prophylaxis of any disease that is not caused by an infectious pathogen, including cancer.

### **Manufacturing**

We have significant expertise in the production of therapeutic biologics. Our proprietary XpressCF Platform is a cell-free protein synthesis technology that enables rapid and systematic process development, streamlined scale-up and cGMP manufacturing.

### ***Extract and Reagents***

We manufacture our cell-free extract, and expect to manufacture related reagents, in our cGMP manufacturing facility in San Carlos, California for our clinical trials and supply commitments. If we are successful in developing an effective strategic relationship with a contract manufacturing organization, or CMO, we would consider supplementing our manufacturing capacity by outsourcing the production of cell-free extract and related reagents to such CMO to cover our needs during product launch and for long-term commercial supply.

### ***Drug Substance and Drug Product***

Our process development and manufacturing strategies are tailored to rapidly advance our product candidates and we use a supply chain of established CMOs to ensure successful execution. The production of antibodies will be done by either us or CMOs, depending on our internal cGMP production capacity. The production of all other necessary elements for the manufacture of our ADC product candidates, and the final manufacture of the ADC drug product, will be handled entirely by CMOs. Our XpressCF Platform has been successfully used for manufacturing several antibodies and requires minimal process optimization to support early clinical phase manufacturing. We utilize industry established production steps for the purification of our antibodies. The CMOs we have selected have strong track records in cGMP manufacturing with expertise in clinical or commercial drug manufacturing for the cytotoxic agent, conjugation and fill-finish of therapeutic biologics. All activities from cell-free extract production to formulated drug product are performed to maintain aggressive timelines and minimize delays.

### **Competition**

The biotechnology and biopharmaceutical industries, and the immuno-oncology subsector, are characterized by rapid evolution of technologies, fierce competition and strong defense of intellectual property. Any product candidates that we successfully develop and commercialize will have to compete with existing therapies and new therapies that may become available in the future. While we believe that our proprietary XpressCF Platform and scientific expertise in the field of biologics and immuno-oncology provide us with competitive advantages, a wide variety of institutions, including large biopharmaceutical companies, specialty biotechnology companies, academic research departments and public and private research institutions, are actively developing potentially competitive products and technologies. We face substantial competition from biotechnology and biopharmaceutical

---

## [Table of Contents](#)

companies developing products in immuno-oncology. Our competitors include larger and better funded biopharmaceutical, biotechnological and therapeutics companies, including companies focused on cancer immunotherapies, such as AstraZeneca PLC, Bristol-Myers Squibb Company, or BMS, GlaxoSmithKline PLC, Merck & Co., Inc., Novartis AG, Pfizer Inc., or Pfizer, Roche Holding Ltd, Sanofi S.A and companies focused on ADCs, such as Pfizer, ImmunoGen, Inc., Seattle Genetics, Inc. and Genentech, Inc., or Genentech, as well as numerous small companies. Moreover, we also compete with current and future therapeutics developed at universities and other research institutions.

If our lead product candidates are approved, they will compete with a range of therapeutic treatments that are either in development or currently marketed. Currently marketed oncology drugs and therapeutics range from ADCs, such as Genentech's Kadcyla, to immune checkpoint inhibitors, such as BMS's Opdivo, to T cell-engager immunotherapies, such as Amgen, Inc.'s Blincyto. In addition, numerous compounds are in clinical development for cancer treatment. With respect to B cell based malignancies, such as multiple myeloma, the most common treatments are chemotherapeutic compounds, radiation therapy, stem cell transplantation and immunomodulating agents. The clinical development pipeline for cancer includes small molecules, antibodies, vaccines, cell therapies and immunotherapies from a variety of companies and institutions.

Many of our competitors, either alone or with strategic partners, have substantially greater financial, technical and human resources than we do. Accordingly, our competitors may be more successful than us in obtaining approval for treatments and achieving widespread market acceptance, rendering our treatments obsolete or non-competitive. Accelerated merger and acquisition activity in the biotechnology and biopharmaceutical industries may result in even more resources being concentrated among a smaller number of our competitors. These companies also compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials and acquiring technologies complementary to, or necessary for, our programs. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Our commercial opportunity could be substantially limited in the event that our competitors develop and commercialize products that are more effective, safer, less toxic, more convenient or less expensive than our comparable products. In geographies that are critical to our commercial success, competitors may also obtain regulatory approvals before us, resulting in our competitors building a strong market position in advance of the entry of our products. We believe the factors determining the success of our programs will be the efficacy, safety and convenience of our product candidates.

### **Reimbursement**

The regulations that govern pricing and reimbursement for new drugs and therapeutic biologics vary widely from country to country. Some countries require approval of the sale price of a drug or therapeutic biologic before it can be marketed. In many countries, the pricing review period begins after marketing approval is granted. In some foreign markets, prescription biopharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, a drug company can obtain regulatory approval for a product in a particular country, but then be subject to price regulations that delay commercial launch of that product.

A drug company's ability to commercialize any products successfully will also depend in part on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government authorities, private health insurers and other organizations. Even if one or more products are successfully brought to the market, these products may not be considered cost-effective, and the amount reimbursed for such products may be insufficient to allow them to be sold on a competitive basis. Increasingly, third-party payors who reimburse patients or healthcare providers, such as government and private insurance plans, are requiring that drug companies provide them with



predetermined discounts from list prices, and are seeking to reduce the prices charged or the amounts reimbursed for biopharmaceutical products.

Significant delays can occur in obtaining reimbursement for newly-approved drugs or therapeutic biologics, and coverage may be more limited than the purposes for which the drug or therapeutic biologic is approved by the FDA or similar foreign regulatory authorities. Moreover, eligibility for reimbursement does not imply that any drug or therapeutic biologic will be reimbursed in all cases or at a rate that covers a drug company's costs, including research, development, manufacture, sale and distribution.

Interim reimbursement levels for new drugs or therapeutic biologics, if applicable, may also be insufficient to cover a drug company's costs and may not be made permanent. Reimbursement rates may be based on payments allowed for lower cost drugs or therapeutic biologics that are already reimbursed, may be incorporated into existing payments for other services and may reflect budgetary constraints or imperfections in Medicare data. Net prices for drugs or therapeutic biologics may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs or therapeutic biologics from countries where they may be sold at lower prices than in the United States. Further, no uniform policy for coverage and reimbursement exists in the United States. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement rates, but also have their own methods and approval process apart from Medicare determinations. Therefore coverage and reimbursement can differ significantly from payor to payor.

### **Intellectual Property**

We strive to protect and enhance the proprietary technology, inventions, and improvements that are commercially important to our business, including seeking, maintaining, and defending patent rights, whether developed internally or licensed from third parties. Our policy is to seek to protect our proprietary position by, among other methods, pursuing and obtaining patent protection in the United States and in jurisdictions outside of the United States related to our proprietary technology, inventions, improvements, platforms and product candidates that are important to the development and implementation of our business. Our patent portfolio is intended to cover, but is not limited to, our technology platforms, our product candidates and components thereof, their methods of use and processes for their manufacture, our proprietary reagents and assays, and any other inventions that are commercially important to our business. We also rely on trade secret protection of our confidential information and know-how relating to our proprietary technology, platforms and product candidates, continuing innovation, and in-licensing opportunities to develop, strengthen, and maintain our proprietary position in our XpressCF Platform and product candidates. We expect to rely on data exclusivity, market exclusivity, patent term adjustment and patent term extensions when available. Our commercial success may depend in part on our ability to obtain and maintain patent and other proprietary protection for our technology, inventions, and improvements; to preserve the confidentiality of our trade secrets; to maintain our licenses to use intellectual property owned or controlled by third parties; to defend and enforce our proprietary rights, including our patents; to defend against and challenge the assertion by third parties of their purported intellectual property rights; and to operate without the unauthorized infringement on the valid and enforceable patents and other proprietary rights of third parties.

We believe that we have a strong global intellectual property position and substantial know-how and trade secrets relating to our XpressCF platform technology, platform and product candidates. Our patent portfolio as of June 30, 2018 contained 12 U.S. issued patents and 13 patents issued in ex-U.S. jurisdictions including Europe, China, Japan, Australia and Singapore and 25 U.S. pending applications as well as 68 patent applications pending in ex-U.S. jurisdictions including Europe, China, Japan,

---

## [Table of Contents](#)

Australia and Singapore owned solely by us. These patents and patent applications include claims relating to:

- bacterial strains, and extracts prepared therefrom, comprising an engineered Release Factor 1 protein, which facilitates incorporation of non-natural amino acids into proteins;
- bacterial strains, and extracts prepared therefrom, comprising combinations of chaperone proteins, which facilitate expression of complex eukaryotic proteins in bacterial extracts;
- antibodies targeting receptors of interest, including CD74 and FolR a;
- ADCs targeting receptors of interest, including CD74 and FolR a;
- hemiasterlin, both as a cytotoxin and as a linker-warhead, which is used in our STRO-0002 product candidate; and
- para-azidomethylphenylalanine, or pAMF, and proteins comprising pAMF, our workhorse non-natural amino acid which is primarily used when we conjugate molecules to proteins produced with our XpressCF Platform.

Our issued patents, and any patents that may issue from our pending patent applications, in our solely owned patent portfolio are expected to expire between January 2030 and March 2039, absent any patent term adjustments or extensions.

In addition, we have exclusively licensed the following patent portfolio from Stanford: 15 U.S. issued patents and 44 patents issued in ex-U.S. jurisdictions including Europe, China, Canada, India, Australia, South Korea, Eurasia and Singapore. This patent portfolio includes claims relating to methods related to *in vitro* protein synthesis that we use in our XpressCF Platform when discovering, developing and manufacturing our product candidates.

Patents in our patent portfolio licensed from Stanford are expected to expire between March 2019 and January 2028, absent any patent term adjustments or extensions.

As for the XpressCF Platform, product candidates and processes we develop and commercialize, in the normal course of business, we intend to pursue, where appropriate, patent protection or trade secret protection relating to compositions, methods of manufacture, assay methods, methods of use, treatment of indications, dosing and formulations. We may also pursue patent protection with respect to product development processes and technology.

[Table of Contents](#)

The following table describes the material patents and patent applications owned or licensed by us.

Patent Relevance	Ownership	Type of Patent Protection	Expiration or Anticipated Expiration (absent patent term extension or adjustment)	Pending Jurisdictions	Issued Jurisdictions
XpressCF Platform	Inlicensed from Stanford	Utility	2023	None	US, AU, CA, EP, JP
XpressCF Platform	Owned by Sutro	Utility	2033	US, CA, CN, EP, IL, IN, JP, KR,	US, AU, SG
XpressCF Platform	Owned by Sutro	Utility	2034	US, AU, CA, CN, EP, HK, IL, IN, JP, KR, SG	None
XpressCF Platform	Owned by Sutro	Utility	2034	US	EP
XpressCF Platform	Owned by Sutro	Utility	2035	None	US, EP
STRO-001 and STRO-002	Owned by Sutro	Utility	2033	US, AU, BR, CA, CN, EP, JP, IN, HK, KR	US, SG
STRO-001 and STRO-002	Owned by Sutro	Utility	2033	US, AU, BR, CA, CN, EP, HK, IL, IN, JP, KR	US, SG
STRO-001	Owned by Sutro	Utility	2035	US, EP	None
STRO-001	Owned by Sutro	Utility	2037	PCT	None
STRO-001	Owned by Sutro	Utility	2037	PCT	None
STRO-001	Owned by Sutro	Provisional	2038	US	None
STRO-002	Owned by Sutro	Utility	2037	PCT	None
STRO-002	Owned by Sutro	Provisional	2038	US	None
STRO-002	Owned by Sutro	Utility	2036	US, AU, BR, CA, CN, EP, IL, IN, JP, KR, SG	None

We continually assess and refine our intellectual property strategy as we develop new platform technologies and product candidates. To that end, we are prepared to file additional patent applications if our intellectual property strategy requires such filings, or where we seek to adapt to competition or seize business opportunities. Further, we are prepared to file patent applications, as we consider appropriate under the circumstances, relating to the new technologies that we develop. In addition to filing and prosecuting patent applications in the United States, we often file counterpart patent applications in the European Union and in additional countries where we believe such foreign filing is

---

## Table of Contents

likely to be beneficial, including but not limited to any or all of Australia, Brazil, Canada, China, Hong Kong, India, Israel, Japan, Mexico, New Zealand, Singapore and South Korea.

The term of individual patents depends upon the laws of the countries in which they are obtained. In most countries in which we file, the patent term is 20 years from the earliest date of filing of a non-provisional patent application. However, the term of United States patents may be extended for delays incurred due to compliance with the FDA requirements or by delays encountered during prosecution that are caused by the United States Patent and Trademark Office, or the USPTO. For example, the Hatch-Waxman Act permits a patent term extension for FDA-approved drugs of up to five years beyond the expiration of the patent. The length of the patent term extension is related to the length of time the drug is under regulatory review. Patent extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval, and only one patent applicable to an approved drug may be extended. Similar provisions are available in Europe and other jurisdictions to extend the term of a patent that covers an approved drug. In the future, if and when our biopharmaceutical product candidates receive FDA approval, we expect to apply for patent term extensions on patents covering those product candidates. We intend to seek patent term extensions to any of our issued patents in any jurisdiction where these are available; however there is no guarantee that the applicable authorities, including the USPTO and FDA, will agree with our assessment of whether such extensions should be granted, and even if granted, the length of such extensions. Our currently issued patents will likely expire on dates ranging from 2030 to 2034, unless we receive patent term extension or patent term adjustment, or both. If patents are issued on our pending patent applications, the resulting patents are projected to expire on dates ranging from 2033 to 2039, unless we receive patent term extension or patent term adjustment, or both. However, the actual protection afforded by a patent varies on a product-by-product basis, from country-to-country, and depends upon many factors, including the type of patent, the scope of its coverage, the availability of regulatory-related extensions, the availability of legal remedies in a particular country and the validity and enforceability of the patent.

The patent positions of companies like ours are generally uncertain and involve complex legal and factual questions. No consistent policy regarding the scope of claims allowable in patents in the field of immunotherapy has emerged in the United States. The patent situation outside of the United States is even more uncertain. Changes in the patent laws and rules, either by legislation, judicial decisions, or regulatory interpretation in the United States and other countries may diminish our ability to protect our inventions and enforce our intellectual property rights, and more generally could affect the value of our intellectual property. In particular, our ability to stop third parties from making, using, selling, offering to sell, or importing any of our patented inventions, either directly or indirectly, will depend in part on our success in obtaining, defending, and enforcing patent claims that cover our technology, inventions, and improvements. With respect to both licensed and company-owned intellectual property, we cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents that may be granted to us in the future will be commercially useful in protecting our platforms and product candidates and the methods used to manufacture those platforms and product candidates. Moreover, even our issued patents do not guarantee us the right to practice our technology in relation to the commercialization of our platform's product candidates. However, the area of patent and other intellectual property rights in biotechnology is an evolving one with many risks and uncertainties, and third parties may have blocking patents that could be used to prevent us from commercializing our patented XpressCF technology, platforms and product candidates and practicing our proprietary technology. Our issued patents and those that may issue in the future may be challenged, invalidated, or circumvented, which could limit our ability to stop competitors from marketing related platforms or product candidates or limit the length of the term of patent protection that we may have for our XpressCF technology, platforms and product candidates. In addition, the rights granted under any issued patents may not provide us with protection or competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop

---

## [Table of Contents](#)

similar technologies. For these reasons, we may have competition for our XpressCF technology, platforms and product candidates. Moreover, because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any particular product candidate can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent. For this and more comprehensive risks related to our proprietary technology, inventions, improvements, platforms and product candidates, please see the section entitled "Risk Factors—Risks Related to Intellectual Property."

We intend to file applications for trademark registrations in connection with our product candidates in various jurisdictions, including the United States. We have filed for trademark protection of the Sutro Biopharma mark, the XpressCF mark and the XpressCF+ mark with the USPTO. XpressCF refers to our cell-free protein synthesis technology as a whole, and XpressCF+ refers specifically to cell-free protein synthesis incorporating one or more non-natural amino acids. The Sutro Biopharma mark was registered by the USPTO in 2014 and the XpressCF and XpressCF+ marks were registered by the USPTO in 2017.

We also rely on trade secret protection for our confidential and proprietary information. Although we take steps to protect our confidential and proprietary information as trade secrets, including through contractual means with our employees and consultants, third parties may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose our technology. Thus, we may not be able to meaningfully protect our trade secrets. It is our policy to require our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information concerning our business or financial affairs developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees, the agreements provide that all inventions conceived by the individual, and which are related to our current or planned business or research and development or made during normal working hours, on our premises or using our equipment or proprietary information, are our exclusive property. In many cases our confidentiality and other agreements with consultants, outside scientific collaborators, sponsored researchers and other advisors require them to assign or grant us licenses to inventions they invent as a result of the work or services they render under such agreements or grant us an option to negotiate a license to use such inventions.

We also seek to preserve the integrity and confidentiality of our proprietary technology and processes by maintaining physical security of our premises and physical and electronic security of our information technology systems. Although we have confidence in these individuals, organizations, and systems, agreements or security measures may be breached and we may not have adequate remedies for any breach. To the extent that our employees, contractors, consultants, collaborators, and advisors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

### **Government Regulation**

Government authorities in the United States, at the federal, state and local level, and in other countries and jurisdictions extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, marketing, post-approval monitoring and reporting, and import and export of pharmaceutical products. The processes for obtaining regulatory approvals in the United States and in foreign countries and jurisdictions, along with subsequent compliance with applicable

statutes and regulations and other regulatory authorities, require the expenditure of substantial time and financial resources.

**FDA Approval Process**

In the United States, pharmaceutical products are subject to extensive regulation by the FDA. The Federal Food, Drug, and Cosmetic Act, or the FDC Act, and other federal and state statutes and regulations, govern, among other things, the research, development, testing, manufacture, storage, recordkeeping, approval, labeling, promotion and marketing, distribution, post-approval monitoring and reporting, sampling, and import and export of pharmaceutical products. Biological products used for the prevention, treatment, or cure of a disease or condition of a human being are subject to regulation under the FDC Act, except the section of the FDC Act which governs the approval of new drug applications, or NDAs. Biological products are approved for marketing under provisions of the Public Health Service Act, or PHS Act, via a Biologics License Application, or BLA. However, the application process and requirements for approval of BLAs are very similar to those for NDAs, and biologics are associated with similar approval risks and costs as drugs. Failure to comply with applicable U.S. requirements may subject a company to a variety of administrative or judicial sanctions, such as clinical hold, FDA refusal to approve pending BLAs, warning or untitled letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, civil penalties, and criminal prosecution.

Biological product development for a new product or certain changes to an approved product in the United States typically involves preclinical laboratory and animal tests, the submission to the FDA of an investigational new drug application, or IND, which must become effective before clinical testing may commence, and adequate and well-controlled clinical trials to establish the safety and effectiveness of the biologic for each indication for which FDA approval is sought. Satisfaction of FDA pre-market approval requirements typically takes many years and the actual time required may vary substantially based upon the type, complexity, and novelty of the product or disease.

Preclinical tests include laboratory evaluation of product chemistry, formulation, and toxicity, as well as animal trials to assess the characteristics and potential safety and efficacy of the product. The conduct of the preclinical tests must comply with federal regulations and requirements, including good laboratory practices. The results of preclinical testing are submitted to the FDA as part of an IND along with other information, including information about product chemistry, manufacturing and controls, and a proposed clinical trial protocol. Long-term preclinical tests, such as animal tests of reproductive toxicity and carcinogenicity, may continue after the IND is submitted. A 30-day waiting period after the submission of each IND is required prior to the commencement of clinical testing in humans. If the FDA has neither commented on nor questioned the IND within this 30-day period, the clinical trial proposed in the IND may begin. Clinical trials involve the administration of the investigational biologic to healthy volunteers or patients under the supervision of a qualified investigator. Clinical trials must be conducted: (i) in compliance with federal regulations; (ii) in compliance with good clinical practice, or GCP, an international standard meant to protect the rights and health of patients and to define the roles of clinical trial sponsors, administrators, and monitors; as well as (iii) under protocols detailing the objectives of the trial, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol involving testing on U.S. patients and subsequent protocol amendments must be submitted to the FDA as part of the IND.

The FDA may order the temporary, or permanent, discontinuation of a clinical trial at any time, or impose other sanctions, if it believes that the clinical trial either is not being conducted in accordance with FDA requirements or presents an unacceptable risk to the clinical trial patients. The trial protocol and informed consent information for patients in clinical trials must also be submitted to an institutional review board, or IRB, for approval. An IRB may also require the clinical trial at the site to be halted,

either temporarily or permanently, for failure to comply with the IRB's requirements, or may impose other conditions.

Clinical trials to support BLAs for marketing approval are typically conducted in three sequential phases, but the phases may overlap. In Phase 1, the initial introduction of the biologic into healthy human subjects or patients, the product is tested to assess metabolism, pharmacokinetics, pharmacological actions, side effects associated with increasing doses, and, if possible, early evidence on effectiveness. In oncology clinical trials, efficacy endpoints are also often explored in Phase 1. Phase 2 usually involves trials in a limited patient population to determine the effectiveness of the drug or biologic for a particular indication, dosage tolerance, and optimum dosage, and to identify common adverse effects and safety risks. If a compound demonstrates evidence of effectiveness and an acceptable safety profile in Phase 2 evaluations, Phase 3 trials are undertaken to obtain the additional information about clinical efficacy and safety in a larger number of patients, typically at geographically dispersed clinical trial sites, to permit the FDA to evaluate the overall benefit-risk relationship of the drug or biologic and to provide adequate information for the labeling of the product. In some instances, trial phases may be truncated or combined into one or more combined-phase or adaptive design trials. In most cases, the FDA requires two adequate and well-controlled Phase 3 clinical trials to demonstrate the efficacy of the biologic. A single Phase 3 trial with other confirmatory evidence may be sufficient in certain oncological conditions where the trial is a large multicenter trial demonstrating internal consistency and a statistically very persuasive finding of a clinically meaningful effect on mortality, irreversible morbidity or prevention of a disease with a potentially serious outcome and confirmation of the result in a second trial would be practically or ethically impossible.

The manufacturer of an investigational drug in a Phase 2 or 3 clinical trial for a serious or life-threatening disease is required to make available, such as by posting on its website, its policy on evaluating and responding to requests for expanded access.

After completion of the required clinical testing, a BLA is prepared and submitted to the FDA. FDA approval of the BLA is required before marketing of the product may begin in the United States. The BLA must include the results of all preclinical, clinical, and other testing and a compilation of data relating to the product's pharmacology, chemistry, manufacture, and controls. The cost of preparing and submitting a BLA is substantial. The submission of most BLAs is additionally subject to a substantial application user fee, currently exceeding \$2,421,000 for Fiscal Year 2018. The applicant under an approved BLA is also subject to an annual program fee, currently exceeding \$304,000 per prescription drug product for Fiscal Year 2018. Beginning in Fiscal Year 2018, this annual program fee replaces the annual product and establishment fees. These fees are typically increased annually. The FDA has 60 days from its receipt of a BLA to determine whether the application will be accepted for filing based on the agency's threshold determination that it is sufficiently complete to permit substantive review. Once the submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of BLAs. Most such applications for standard review biologic products are reviewed within 10 months of the date the FDA files the BLA; most applications for priority review biologics are reviewed within six months of the date the FDA files the BLA. Priority review can be applied to a biologic that the FDA determines has the potential to treat a serious or life-threatening condition and, if approved, would be a significant improvement in safety or effectiveness compared to available therapies. The review process for both standard and priority review may be extended by the FDA for three additional months to consider certain late-submitted information, or information intended to clarify information already provided in the submission.

The FDA may also refer applications for novel biologic products, or biologic products that present difficult questions of safety or efficacy, to an advisory committee—typically a panel that includes clinicians and other experts—for review, evaluation, and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory

committee, but it generally follows such recommendations. Before approving a BLA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. Additionally, the FDA will inspect the facility or the facilities at which the biologic product is manufactured. The FDA will not approve the product unless compliance with current Good Manufacturing Practices, or cGMPs, is satisfactory and the BLA contains data that provide substantial evidence that the biologic is safe, pure, potent and effective in the indication studied.

After the FDA evaluates the BLA and the manufacturing facilities, it issues either an approval letter or a complete response letter. A complete response letter generally outlines the deficiencies in the submission and may require substantial additional testing, or information, in order for the FDA to reconsider the application. If, or when, those deficiencies have been addressed to the FDA's satisfaction in a resubmission of the BLA, the FDA will issue an approval letter. The FDA has committed to reviewing such resubmissions in two or six months depending on the type of information included. An approval letter authorizes commercial marketing of the biologic with specific prescribing information for specific indications. As a condition of BLA approval, the FDA may require a risk evaluation and mitigation strategy, or REMS, to help ensure that the benefits of the biologic outweigh the potential risks. REMS can include medication guides, communication plans for healthcare professionals, and elements to assure safe use, or ETASU. ETASU can include, but are not limited to, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. The requirement for a REMS can materially affect the potential market and profitability of the product. Moreover, product approval may require substantial post-approval testing and surveillance to monitor the product's safety or efficacy.

Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing. Changes to some of the conditions established in an approved application, including changes in indications, labeling, or manufacturing processes or facilities, require submission and FDA approval of a new BLA or BLA supplement before the change can be implemented. A BLA supplement for a new indication typically requires clinical data similar to that in the original application, and the FDA uses the same procedures and actions in reviewing BLA supplements as it does in reviewing BLAs.

#### ***Fast Track Designation and Accelerated Approval***

The FDA is required to facilitate the development, and expedite the review, of biologics that are intended for the treatment of a serious or life-threatening disease or condition for which there is no effective treatment and which demonstrate the potential to address unmet medical needs for the condition. Under the fast track program, the sponsor of a new biologic candidate may request that the FDA designate the candidate for a specific indication as a fast track biologic concurrent with, or after, the filing of the IND for the candidate. The FDA must determine if the biologic candidate qualifies for fast track designation within 60 days of receipt of the sponsor's request. Under the fast track program and FDA's accelerated approval regulations, the FDA may approve a biologic for a serious or life-threatening illness that provides meaningful therapeutic benefit to patients over existing treatments based upon a surrogate endpoint that is reasonably likely to predict clinical benefit, or on a clinical endpoint that can be measured earlier than irreversible morbidity or mortality, that is reasonably likely to predict an effect on irreversible morbidity or mortality or other clinical benefit, taking into account the severity, rarity, or prevalence of the condition and the availability or lack of alternative treatments.

In clinical trials, a surrogate endpoint is a measurement of laboratory or clinical signs of a disease or condition that substitutes for a direct measurement of how a patient feels, functions, or survives. Surrogate endpoints can often be measured more easily or more rapidly than clinical endpoints. A biologic candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase 4 or post-approval clinical trials to confirm the effect on the clinical endpoint. Failure to conduct required post-approval trials, or confirm a clinical benefit



during post-marketing trials, will allow the FDA to withdraw the biologic from the market on an expedited basis. All promotional materials for biologic candidates approved under accelerated regulations are subject to prior review by the FDA.

In addition to other benefits such as the ability to use surrogate endpoints and engage in more frequent interactions with the FDA, the FDA may initiate review of sections of a fast track product's BLA before the application is complete. This rolling review is available if the applicant provides, and the FDA approves, a schedule for the submission of the remaining information and the applicant pays applicable user fees. However, the FDA's time period goal for reviewing an application does not begin until the last section of the BLA is submitted. Additionally, the fast track designation may be withdrawn by the FDA if the FDA believes that the designation is no longer supported by data emerging in the clinical trial process.

#### ***Orphan Drug Designation***

Under the Orphan Drug Act, the FDA may grant orphan drug designation to biological products intended to treat a rare disease or condition—generally a disease or condition that affects fewer than 200,000 individuals in the United States, or if it affects more than 200,000 individuals in the United States, there is no reasonable expectation that the cost of developing and making a product available in the United States for such disease or condition will be recovered from sales of the product.

Orphan drug designation must be requested before submitting a BLA. After the FDA grants orphan drug designation, the generic identity of the biological product and its potential orphan use are disclosed publicly by the FDA. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process. The first BLA applicant to receive FDA approval for a product with particular principal molecular structural features to treat a particular disease with FDA orphan drug designation is entitled to a seven-year exclusive marketing period in the United States for that product for that indication. During the seven-year exclusivity period, the FDA may not approve any other applications to market a biological product containing the same active moiety for the same disease, except in limited circumstances, such as a showing of clinical superiority to the product with orphan drug exclusivity. A product is clinically superior if it is safer, more effective or makes a major contribution to patient care. Orphan drug exclusivity does not prevent the FDA from approving a different drug or biological product for the same disease or condition, or the same biological product for a different disease or condition. Among the other benefits of orphan drug designation are tax credits for certain research and a waiver of the BLA user fee.

#### ***Disclosure of Clinical Trial Information***

Sponsors of clinical trials of FDA-regulated products, including biological products, are required to register and disclose certain clinical trial information. Information related to the product, patient population, phase of investigation, trial sites and investigators, and other aspects of the clinical trial is then made public as part of the registration. Sponsors are also obligated to discuss the results of their clinical trials after completion. Disclosure of the results of these trials can be delayed in certain circumstances for up to two years after the date of completion of the trial. Competitors may use this publicly available information to gain knowledge regarding the progress of development programs.

#### ***Pediatric Information***

Under the Pediatric Research Equity Act, or PREA, BLAs or supplements to BLAs must contain data to assess the safety and effectiveness of the biological product for the claimed indications in all relevant pediatric subpopulations and to support dosing and administration for each pediatric subpopulation for which the biological product is safe and effective. The FDA may grant full or partial waivers, or deferrals, for submission of data. Unless otherwise required by regulation, PREA does not apply to any biological product for an indication for which orphan designation has been granted, except

a product with a new active ingredient that is molecularly targeted cancer product intended for the treatment of an adult cancer and directed at a molecular target determined by FDA to be substantially relevant to the growth or progression of a pediatric cancer that is subject to an NDA or BLA submitted on or after August 18, 2020.

#### **Additional Controls for Biologics**

To help reduce the increased risk of the introduction of adventitious agents, the PHS Act emphasizes the importance of manufacturing controls for products whose attributes cannot be precisely defined. The PHS Act also provides authority to the FDA to immediately suspend licenses in situations where there exists a danger to public health, to prepare or procure products in the event of shortages and critical public health needs, and to authorize the creation and enforcement of regulations to prevent the introduction or spread of communicable diseases in the United States and between states.

After a BLA is approved, the product may also be subject to official lot release as a condition of approval. As part of the manufacturing process, the manufacturer is required to perform certain tests on each lot of the product before it is released for distribution. If the product is subject to official release by the FDA, the manufacturer submits samples of each lot of product to the FDA together with a release protocol showing a summary of the history of manufacture of the lot and the results of all of the manufacturer's tests performed on the lot. The FDA may also perform certain confirmatory tests on lots of some products, such as viral vaccines, before releasing the lots for distribution by the manufacturer. In addition, the FDA conducts laboratory research related to the regulatory standards on the safety, purity, potency, and effectiveness of biological products. As with drugs, after approval of biologics, manufacturers must address any safety issues that arise, are subject to recalls or a halt in manufacturing, and are subject to periodic inspection after approval.

#### **Post-Approval Requirements**

Once a BLA is approved, a product will be subject to certain post-approval requirements. For instance, the FDA closely regulates the post-approval marketing and promotion of biologics, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the internet. Biologics may be marketed only for the approved indications and in accordance with the provisions of the approved labeling.

Adverse event reporting and submission of periodic reports is required following FDA approval of a BLA. The FDA also may require post-marketing testing, known as Phase 4 testing, REMS, and surveillance to monitor the effects of an approved product, or the FDA may place conditions on an approval that could restrict the distribution or use of the product. In addition, quality control, biological product manufacture, packaging, and labeling procedures must continue to conform to cGMPs after approval. Biologic manufacturers and certain of their subcontractors are required to register their establishments with the FDA and certain state agencies. Registration with the FDA subjects entities to periodic unannounced inspections by the FDA, during which the agency inspects manufacturing facilities to assess compliance with cGMPs. Accordingly, manufacturers must continue to expend time, money, and effort in the areas of production and quality-control to maintain compliance with cGMPs. Regulatory authorities may withdraw product approvals or request product recalls if a company fails to comply with regulatory standards, if it encounters problems following initial marketing, or if previously unrecognized problems are subsequently discovered.

#### **FDA Regulation of Companion Diagnostics**

A biologic product may rely upon an *in vitro* companion diagnostics for use in selecting the patients that will respond to a therapy. If an *in vitro* diagnostic is essential to the safe and effective use of the

---

## [Table of Contents](#)

therapeutic product, then the FDA generally will require approval or clearance of the diagnostic at the same time that FDA approves the therapeutic product.

Pursuing FDA approval of an *in vitro* companion diagnostic would require a pre-market approval, or PMA, for that diagnostic. Based on a final FDA guidance document, and the FDA's past treatment of companion diagnostics, the FDA will likely require PMA approval of an *in vitro* companion diagnostics to identify patient populations suitable for a cancer therapy. The review of these *in vitro* companion diagnostics involves coordination of review by the FDA's Center for Biologics Evaluation and Research and by the FDA's Center for Devices and Radiological Health. Approval of a companion diagnostic is generally required at the time of new drug approval.

The PMA process, including the gathering of clinical and nonclinical data and the submission to and review by the FDA, can take several years or longer. The applicant must prepare and provide the FDA with reasonable assurance of the device's safety and effectiveness, including information about the device and its components regarding, among other things, device design, manufacturing and labeling. PMA applications are subject to an application fee, which exceeds \$310,000 for most PMAs for Fiscal Year 2018. In addition, PMAs for devices must generally include the results from extensive preclinical and adequate and well-controlled clinical trials to establish the safety and effectiveness of the device for each indication for which FDA approval is sought. In particular, for a diagnostic, the applicant must demonstrate that the diagnostic produces reproducible results between multiple users at multiple laboratories. As part of the PMA review, the FDA will typically inspect the manufacturer's facilities for compliance with the Quality System Regulation, or QSR, which imposes elaborate testing, control, documentation and other quality assurance requirements.

PMA approval is not guaranteed, and the FDA may ultimately respond to a PMA submission with a not approvable determination based on deficiencies in the application and require additional clinical trial or other data that may be expensive and time consuming to generate and that can substantially delay or prevent approval. If the FDA concludes that the applicable criteria have been met, the FDA will issue a PMA for the approved indications, which can be more limited than those originally sought by the applicant. The PMA can include post-approval conditions that the FDA believes necessary to ensure the safety and effectiveness of the device, including, among other things, restrictions on labeling, promotion, sale and distribution.

After a device is placed on the market, it remains subject to significant regulatory requirements. Medical devices may be marketed only for the uses and indications for which they are cleared or approved. Device manufacturers must also register with FDA and list their devices. A medical device manufacturer's manufacturing processes are required to comply with the applicable portions of the QSR, which cover the methods and documentation of the design, testing, production, processes, controls, quality assurance, labeling, packaging and shipping of medical devices. Domestic facility records and manufacturing processes are subject to periodic inspections by the FDA.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions: warning or untitled letters, fines, injunctions, civil or criminal penalties, recall or seizure of current or future products, operating restrictions, partial suspension or total shutdown of production, denial of submissions for new products, or withdrawal of PMA approvals.

### **Other Healthcare Laws**

In addition to FDA restrictions on marketing of pharmaceutical products, several other types of state and federal laws have been applied to restrict certain general business and marketing practices in the pharmaceutical industry in recent years. These laws include anti-kickback statutes, false claims statutes and other healthcare laws and regulations.

---

## Table of Contents

The federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for, purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid, or other federally financed healthcare programs. The Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, collectively, the ACA, amended the intent element of the federal statute so that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it in order to commit a violation. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers and formulary managers on the other. Although there are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions, the exceptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchases or recommendations may be subject to scrutiny if they do not qualify for an exception or safe harbor.

Federal civil and criminal false claims laws, including the federal civil False Claims Act, prohibit any person or entity from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to have a false claim paid. This includes claims made to programs where the federal government reimburses, such as Medicaid, as well as programs where the federal government is a direct purchaser, such as when it purchases off the Federal Supply Schedule. Recently, several pharmaceutical and other healthcare companies have been prosecuted under these laws for allegedly inflating drug prices they report to pricing services, which in turn were used by the government to set Medicare and Medicaid reimbursement rates, and for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. In addition, certain marketing practices, including off-label promotion, may also violate false claims laws. Additionally, the ACA amended the federal Anti-Kickback Statute such that a violation of that statute can serve as a basis for liability under the federal False Claims Act. The majority of states also have statutes or regulations similar to the federal Anti-Kickback Statute and False Claims Act, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

Other federal statutes pertaining to healthcare fraud and abuse include the civil monetary penalties statute, which prohibits, among other things, the offer or payment of remuneration to a Medicaid or Medicare beneficiary that the offerer or payor knows or should know is likely to influence the beneficiary to order a reimbursable item or service from a particular supplier, and the additional federal criminal statutes created by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, which prohibits, among other things, knowingly and willfully executing or attempting to execute a scheme to defraud any healthcare benefit program or obtain by means of false or fraudulent pretenses, representations or promises any money or property owned by or under the control of any healthcare benefit program in connection with the delivery of or payment for healthcare benefits, items or services.

In addition, HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, imposes obligations on certain healthcare providers, health plans, and healthcare clearinghouses, known as covered entities, as well as their business associates that perform certain services involving the storage, use or disclosure of individually identifiable health information, including mandatory contractual terms, with respect to safeguarding the privacy, security, and transmission of individually identifiable health information, and require notification to affected individuals and regulatory authorities of certain breaches of security of individually identifiable health information.

Further, pursuant to the ACA, the Centers for Medicare & Medicaid Services, or CMS, has issued a final rule that requires manufacturers of prescription drugs to collect and report information on certain

payments or transfers of value to physicians and teaching hospitals, as well as investment interests held by physicians and their immediate family members. The first reports were due in 2014 and must be submitted on an annual basis. The reported data is made available in searchable form on a public website on an annual basis.

In addition, several states now require prescription drug companies to report certain expenses relating to the marketing and promotion of drug products and to report gifts and payments to individual healthcare practitioners in these states. Other states prohibit various marketing-related activities, such as the provision of certain kinds of gifts or meals. Still other states require the posting of information relating to clinical studies and their outcomes. Some states require the reporting of certain pricing information, including information pertaining to and justifying price increases, or prohibit prescription drug price gouging. In addition, states such as California, Connecticut, Nevada, and Massachusetts require pharmaceutical companies to implement compliance programs and/or marketing codes. Several additional states are considering similar proposals. Certain states and local jurisdictions also require the registration of pharmaceutical sales representatives. Compliance with these laws is difficult and time consuming, and companies that do not comply with these state laws face civil penalties.

Efforts to ensure that business arrangements with third parties comply with applicable healthcare laws and regulations involve substantial costs. If a drug company's operations are found to be in violation of any such requirements, it may be subject to significant penalties, including civil, criminal and administrative penalties, damages, fines, disgorgement, imprisonment, the curtailment or restructuring of its operations, loss of eligibility to obtain approvals from the FDA, exclusion from participation in government contracting, healthcare reimbursement or other government programs, including Medicare and Medicaid, integrity oversight and reporting obligations and reputational harm. Although effective compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, these risks cannot be entirely eliminated. Any action for an alleged or suspected violation can cause a drug company to incur significant legal expenses and divert management's attention from the operation of the business, even if such action is successfully defended.

### **U.S. Healthcare Reform**

In the United States there have been, and continue to be, proposals by the federal government, state governments, regulators and third-party payors to control or manage the increased costs of health care and, more generally, to reform the U.S. healthcare system. For example, in March 2010, the ACA was enacted, which substantially changed the way healthcare is financed by both governmental and private insurers, and significantly impacts the U.S. pharmaceutical industry. The ACA, among other things, (i) subjected therapeutic biologics to potential competition by lower-cost biosimilars by creating a licensure framework for follow-on biologic products, (ii) proscribed a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs and therapeutic biologics that are inhaled, infused, instilled, implanted or injected, (iii) increased the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and extended the rebate program to individuals enrolled in Medicaid managed care organizations, (iv) established annual fees and taxes on manufacturers of certain branded prescription drugs and therapeutic biologics, (v) established a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs and therapeutic biologics to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs and therapeutic biologics to be covered under Medicare Part D, (vi) expanded eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for individuals with income at or below 133% of the federal poverty level, thereby potentially increasing manufacturers' Medicaid rebate liability, (vii) expanded the entities eligible for

discounts under the Public Health program (viii) created a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research, and (ix) established a Center for Medicare Innovation at CMS to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending.

The current U.S. presidential administration and Congress have, and we expect they will continue to, seek to modify, repeal, or otherwise invalidate all, or certain provisions of, the ACA. Since January 2017, the current U.S. presidential administration has issued two executive orders and other directives designed to delay the implementation of certain provisions of the ACA or otherwise circumvent some of the requirements for health insurance mandated by the ACA. For example, on October 12, 2017, the current U.S. presidential administration issued an executive order that expands the use of association health plans and allows anyone to purchase short-term health plans that provide temporary, limited insurance. This executive order also calls for the halt of federal payments to health insurers for cost-sharing reductions previously available to lower-income Americans to afford coverage. There is still uncertainty with respect to the impact this executive order could have on coverage and reimbursement for healthcare items and services covered by plans that were authorized by the ACA. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the ACA. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the ACA have been signed into law. The Tax Cuts and Jobs Act of 2017, among other things, includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the ACA 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, the current U.S. presidential administration signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain ACA-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 ACA, 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". More recently, in July 2018, CMS published a final rule permitting further collections and payments to and from certain ACA qualified health plans and health insurance issuers under the ACA risk adjustment program in response to the outcome of federal district court litigation regarding the method CMS uses to determine this risk adjustment. There is still uncertainty with respect to the impact the current U.S. presidential administration and the Congress may have, if any, and any changes will likely take time to unfold, and could have an impact on coverage and reimbursement for healthcare items and services covered by plans that were authorized by the ACA. However, we cannot predict the ultimate content, timing or effect of any healthcare reform legislation or the impact of potential legislation on us.

In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted to reduce healthcare expenditures. U.S. federal government agencies also currently face potentially significant spending reductions, which may further impact healthcare expenditures. On August 2, 2011, the Budget Control Act of 2011 among other things, created measures for spending reductions by Congress. A joint select committee on deficit reduction, tasked with recommending a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers of 2% per fiscal year. These reductions went into effect on April 1, 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. Moreover, on January 2, 2013, the American Taxpayer Relief Act of

---

## [Table of Contents](#)

2012 was signed into law, which, among other things, further reduced Medicare payments to several types of providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. If federal spending is further reduced, anticipated budgetary shortfalls may also impact the ability of relevant agencies, such as the FDA or the National Institutes of Health to continue to function at current levels. Amounts allocated to federal grants and contracts may be reduced or eliminated. These reductions may also impact the ability of relevant agencies to timely review and approve research and development, manufacturing, and marketing activities, which may delay our ability to develop, market and sell any products we may develop.

Moreover, payment methodologies, including payment for companion diagnostics, may be subject to changes in healthcare legislation and regulatory initiatives. For example, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. While the MMA only applies to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors. In addition, CMS has begun bundling the Medicare payments for certain laboratory tests ordered while a patient received services in a hospital outpatient setting and, beginning in 2018, CMS will pay for clinical laboratory services based on a weighted average of reported prices that private payors, Medicare Advantage plans, and Medicaid Managed Care plans pay for laboratory services. Further, on March 16, 2018, CMS finalized its National Coverage Determination, or NCD, for certain diagnostic laboratory tests using next generation sequencing, or NGS, that are approved by the FDA as a companion in vitro diagnostic and used in a cancer with an FDA-approved companion diagnostic indication. Under the NCD, diagnostic tests that gain FDA approval or clearance as an in vitro companion diagnostic will automatically receive full coverage and be available for patients with recurrent, metastatic relapsed, refractory or stages III and IV cancer. Additionally, the NCD extended coverage to repeat testing when the patient has a new primary diagnosis of cancer.

Recently there has been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drug products. At the federal level, the current U.S. presidential 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. Additionally, on May 11, 2018, the current U.S. presidential administration laid out the administration's "Blueprint" to reduce the cost of prescription medications while preserving innovation and cures. While the Department of Health and Human Services, or HHS, is soliciting feedback on some of these measures, other actions may be immediately implemented by HHS under existing authority. Although a number of these, and other potential, proposals will require authorization through additional legislation to become effective, Congress and the current U.S. presidential 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.

Additionally, on May 30, 2018, the Trickett Wendler, Frank Mongiello, Jordan McLinn, and Matthew Bellina Right to Try Act of 2017 was signed into law. The law, among other things, provides a federal framework for certain patients to access certain investigational new drug products that have completed a Phase I clinical trial and that are undergoing investigation for FDA approval. Under certain circumstances, eligible patients can seek treatment without enrolling in clinical trials and without obtaining FDA authorization under an FDA expanded access program.

#### **Employees**

As of June 30, 2018, we had 128 full-time employees, 21 full-time contract employees and one part-time contract employee. Of these employees, 41 have an M.D. or a Ph.D. None of our employees are represented by a labor union or covered by collective bargaining agreements, and we believe our relationship with our employees is good.

#### **Research and Development**

Research and development expenses for the years ended December 31, 2016 and 2017 were \$43.6 million and \$54.6 million, respectively, and for the six months ended June 30, 2017 and 2018, were \$25.8 million and \$26.8 million, respectively.

#### **Properties and Facilities**

Our principal executive office is located in South San Francisco, California, where we lease a total of approximately 52,200 square feet of office and laboratory space in two buildings that we use for our administrative, research and development and other activities. The lease under each of our South San Francisco buildings expires in November 2021, unless we exercise our option to extend each lease term through November 2026. We also have a manufacturing facility and manufacturing-support facility in San Carlos, California, where we lease a total of approximately 29,600 square feet of space in two buildings. The lease on one of our San Carlos buildings expires in July 2021, for which we have two three-year options to extend our lease to July 2027. The lease on the second San Carlos building expires in June 2021, for which we have two three-year options to extend the lease to June 2027.

#### **Legal Proceedings**

From time to time, we may be involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, in the opinion of management, would have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity and reputational harm, and other factors.



**MANAGEMENT****Executive Officers and Directors**

The following table provides information regarding our executive officers and directors as of July 31, 2018:

<b>Name</b>	<b>Age</b>	<b>Position</b>
<b>Executive Officers:</b>		
William J. Newell	61	Chief Executive Officer and Director
Arturo Molina, M.D., M.S., FACP	60	Chief Medical Officer
Trevor J. Hallam, Ph.D.	60	Chief Scientific Officer
Edward Albini	61	Chief Financial Officer
Shabbir T. Anik, Ph.D.	66	Chief Technical Operations Officer
<b>Non-Employee Directors:</b>		
Michael Dybbs	43	Director
John G. Freund, M.D.	64	Director
Daniel Janney	52	Director
V. Bryan Lawlis, Ph.D.	66	Director
Joseph M. Lobacki	59	Director
Daniel H. Petree	62	Director
Michael Ross, Ph.D.	69	Director
Armen B. Shanafelt, Ph.D.	59	Director

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Nominating and Governance Committee.
- (4) Member of the Science and Technology Committee
- (5) Lead Independent Director.

**Executive Officers**

*William J. Newell* has served as our Chief Executive Officer and a member of our board of directors since January 2009. Previously, he served as the President of Aerovance, Inc., a biotechnology company focused on respiratory diseases, from 2006 to 2007. Mr. Newell has also served as the Chief Business Officer and Senior Vice President at QLT Inc., in several senior management positions at Axy's Pharmaceuticals, Inc., and has experience as a corporate lawyer. He currently serves on the boards of directors of two private biotechnology companies, Biotechnology Innovation Organization's Health Section and Emerging Company Section and the California Life Sciences Association, where he also serves as a Chair and as a member of the executive committee. Mr. Newell received an A.B. in Government from Dartmouth College and a J.D. from the University of Michigan Law School. We believe that Mr. Newell is qualified to serve on our board of directors because of his experience with various biotechnology companies, including working with and serving in various executive positions in life sciences companies.

*Arturo Molina, M.D., M.S., FACP*, has served as our Chief Medical Officer since February 2016. From February 2013 to February 2016, Dr. Molina served as Vice President of Oncology Scientific Innovation at Johnson & Johnson's California Innovation Center, an organization focused on building early stage collaborations with emerging companies. Previously, Dr. Molina served as Chief Medical Officer and Vice President of Clinical Development for Johnson and Johnson's Ortho Biotech Oncology Research and Development, a unit of Cougar Biotechnology, Inc., Chief Medical Officer of Cougar Biotechnology, Inc., Senior Director and Interim Head of Oncology/Hematology in the Department of Medical Research and Clinical Development at Biogen Idec, Inc., and Senior Director of Medical Affairs

---

## Table of Contents

at IDEC Pharmaceuticals Corporation. Since 2006, Dr. Molina has served as a National Advisory Committee Member for the Harold Amos Medical Faculty Development Program of the Robert Wood Johnson Foundation. From 1991 to 2002, Dr. Molina was a faculty staff physician in the Department of Hematology/Bone Marrow Transplantation and Department of Medical Oncology/Therapeutics Research at City of Hope Comprehensive Cancer Center and Adjunct Professor from 2004 to 2007. Dr. Molina was also on the Board of Directors of the City of Hope Medical Group. Dr. Molina received a B.S. in Zoology and B.A. in Psychology from the University of Texas at Austin and an M.S. in Physiology and M.D. from Stanford University School of Medicine. He is board certified in internal medicine and medical oncology, has an active California medical license and is a staff physician (volunteer) in the Oncology Clinic at the Veterans Affairs Palo Alto Health Care System.

*Trevor J. Hallam, Ph.D.*, has served as our Chief Science Officer since December 2010. Prior to joining us, Dr. Hallam was Executive Vice President of Research & Development at Palatin Technologies, Inc., and held several senior management positions in various pharmaceutical companies, including AstraZeneca PLC, SmithKline & French Laboratories, Ltd., Glaxo Group Research Ltd., Roche Research and Rhone-Poulenc Rorer. Dr. Hallam received a BSc (Hons) in Biochemistry from the University of Leeds and a Ph.D. in Biochemistry from Kings College, University of London. He then conducted post-doctoral training at the Physiological Laboratory, University of Cambridge.

*Edward Albini* has served as our Chief Financial Officer since January 2013. During 2012, Mr. Albini served as a consulting Chief Financial Officer for Carbylan Biosurgery, a company focused on the development and commercialization of advanced biomaterial-based joint therapies. From 2011 to 2016, Mr. Albini also served as Chief Financial Officer and Secretary for Itero Holdings, LLC, a successor entity to Itero Biopharmaceuticals, Inc., a company focused on the development and commercialization of protein therapeutics, at which Mr. Albini served as Chief Financial Officer and Senior Vice President from 2009 to 2011. Previously, Mr. Albini served as Chief Financial Officer of Novacea, Inc. and Lynx Therapeutics, Inc., both biopharmaceutical companies. Mr. Albini received a B.S.C. in Accounting from Santa Clara University and an M.B.A. from the Walter A. Haas School of Business at the University of California, Berkeley. Mr. Albini is also a certified public accountant (inactive status) in California.

*Shabbir T. Anik, Ph.D.*, has served as our Chief Technical Operations Officer since March 2016. From August 2011 to December 2015, Dr. Anik served as Senior Vice President of Technical Operations at Onyx Pharmaceuticals, Inc., a pharmaceutical company focused on developing medicines for the treatment of cancer. Previously, Dr. Anik served as President and Chief Executive Officer of Althea Technologies Inc., President of Global Pharmaceutical Development Services and Chief Scientific Officer for Patheon Inc. and in various leadership positions at Neurex Corporation and Syntex Inc. Dr. Anik received a B.S. in Pharmacy from the University of Bombay, a Ph.D. in Pharmaceutical Sciences from the University of Wisconsin, Madison and an M.B.A. from Santa Clara University.

### **Non-Employee Directors**

*Michael Dybbs, Ph.D.*, has served as a member of our board of directors since July 25, 2018. Dr. Dybbs is currently a partner at Samsara BioCapital, where he has worked since March 2017. Prior to joining Samsara, Dr. Dybbs was a partner at New Leaf Venture Partners, where he worked from May 2009 until September 2016. Before joining New Leaf Venture Partners, L.L.C., Dr. Dybbs was a principal at the Boston Consulting Group. Dr. Dybbs currently serves on the boards of directors of several private companies. Dr. Dybbs previously served on the boards of directors of Versartis, Inc. and Dimension Therapeutics, Inc. Dr. Dybbs received an A.B. in biochemical sciences from Harvard College and a Ph.D. in molecular biology from U.C. Berkeley, where he was awarded a Howard Hughes Medical Institute fellowship. We believe that Dr. Dybbs is qualified to serve on our board of

---

## Table of Contents

directors due to his experience in the life sciences industry and the venture capital industry, and his leadership and management experience.

*John G. Freund, M.D.*, has served as a member of our board of directors since February 2014. Dr. Freund founded Skyline Ventures, a venture capital firm, in September 1997, where he has served as a Managing Director since its founding. Prior to founding Skyline, Dr. Freund served as Managing Director at Chancellor Capital Management, cofounded Intuitive Surgical, Inc., served in various positions at Acuson Corporation, was a general partner at Morgan Stanley Venture Partners and co-founded the Healthcare Group in the Corporate Finance Department of Morgan Stanley. Dr. Freund currently serves on the boards of directors of Proteon Therapeutics, Inc., Collegium Pharmaceutical, Inc., Tetrphase Pharmaceuticals, Inc. and six U.S. registered investment funds managed by affiliates of Capital Group, Inc. Dr. Freund is a member of the Advisory Board for the Harvard Business School Healthcare Initiative. Dr. Freund previously served on the boards of directors of several publicly traded companies, including XenoPort, Inc., where he was Chairman, Concert Pharmaceuticals, Inc., MAP Pharmaceuticals, Inc. and MAKO Surgical Corp. Dr. Freund received an A.B. in History from Harvard College, an M.D. from Harvard Medical School and an M.B.A. from Harvard Business School. We believe that Dr. Freund is qualified to serve on our board of directors because of his training as a physician and his extensive investment, business and board experience with public healthcare and biopharmaceutical companies.

*Daniel Janney* has served as a member of our board of directors since February 2014. In 1996, Mr. Janney joined Alta Partners, a life sciences venture capital firm, where he is currently a managing director. Prior to joining Alta, Mr. Janney was Vice President of the healthcare and biotechnology investment banking group at Montgomery Securities. Mr. Janney currently serves on the boards of directors of Esperion Therapeutics, Inc., Krystal Biotech and Viveve Medical, Inc., as well as on the boards of directors of several private companies. Mr. Janney is a member of The President's Council of the J. David Gladstone Institutes, serves on the Board of Regents of Georgetown University and serves of the Board of Trustees of the California Academy of Sciences. Mr. Janney received a B.A. in History from Georgetown University and an M.B.A. from the Anderson School at the University of California, Los Angeles. We believe that Mr. Janney is qualified to serve on our board of directors because of his experience working with and serving on the boards of directors of various life sciences companies.

*V. Bryan Lawlis, Ph.D.*, has served as a member of our board of directors since January 2004. From 2011 to 2016, Dr. Lawlis served as the President and Chief Executive Officer of Itero Biopharmaceuticals, LLC, a pharmaceutical company focused on protein therapeutics. Previously, he served in various senior management positions at Itero Biopharmaceuticals, Inc., Aradigm Corporation, Covance Biotechnology Services, Inc. and Genentech, Inc. Dr. Lawlis currently serves on the boards of directors at BioMarin Pharmaceutical Inc., Geron, Inc. and Coherus Biosciences, Inc., as well as on the boards of directors of several private companies. Dr. Lawlis is also an advisor for Phoenix Venture Partners, a venture capital firm that invests in material science and manufacturing technology. Dr. Lawlis holds a B.A. in Microbiology from the University of Texas at Austin and a Ph.D. in Biochemistry from Washington State University. We believe that Dr. Lawlis is qualified to serve on our board of directors because of his longtime involvement in the biotechnology industry and extensive service as a director or officer of other life sciences companies.

*Joseph M. Lobacki* has served as a member of our board of directors since February 2017. Since January 2018, Mr. Lobacki has served as Executive Vice President and Chief Commercial Officer for Verastem Oncology, a biopharmaceutical company focused on the development and commercialization of therapies for the treatment of hematologic malignancies. From November 2016 to December 2017, Mr. Lobacki served as Chief Operating Officer for Crestovo, a clinical-stage biopharmaceutical company focused on microbiome therapies. From 2014 to 2016, Mr. Lobacki served

---

## Table of Contents

as Chief Commercial Officer at Medivation, Inc., a biopharmaceutical company focused on development of novel therapies for the treatment of serious diseases. From 2012 to 2014, Mr. Lobacki also served as General Manager of Oncology and an independent biotechnology consultant at Idera Pharmaceuticals, Inc., a biopharmaceutical company focused on therapies for cancer and rare diseases. Previously, Mr. Lobacki served as Senior Vice-President and Chief Commercial Officer at Micromet, Inc., Senior Vice-President and General Manager of US Transplant and Oncology at Genzyme Corporation and in various other positions at SangStat Medical Corporation, Cell Pathways, Inc., Rhone-Poulenc Rorer and Lederle Laboratories. Mr. Lobacki previously served on the board of directors of Celator Pharmaceuticals Inc. Mr. Lobacki earned a B.S. in Biology from Boston College and a B.S. in Pharmacy from the Massachusetts College of Pharmacy. We believe that Mr. Lobacki is qualified to serve on our board of directors because of his strong biopharmaceutical managerial and commercial experience, including his expertise with biopharmaceutical research and development, sales and marketing and strategy and operations.

*Daniel H. Petree*, has served as a member of our board of directors since August 2009. In April 2012, Mr. Petree co-founded Four Oaks Partners Consulting, LLC, which provides transaction advisory services to small and medium-sized life science companies and in 2000, Mr. Petree co-founded P2 Partners, LLC, Four Oaks' predecessor in the same business. Before co-founding P2 Partners, Mr. Petree served as President and Chief Operating Officer of Axyx Pharmaceuticals, Inc., Executive Vice President and Chief Financial Officer of Arris Pharmaceuticals, Incorporated and Vice President of Business Development at TSI Corporation and was a corporate and securities lawyer. Mr. Petree previously served on the boards of directors of Lpath, Inc., Biocept, Inc. and Cypress Bioscience, Inc. along with a number of privately held biotechnology companies. Mr. Petree received an A.B. in History and Political Science from Stanford University and a J.D. from the University of Michigan Law School. We believe that Mr. Petree is qualified to serve on our board of directors because of his experience in the biotechnology industry, including structuring and negotiating pharmaceutical partnering arrangements and strategic transactions.

*Michael Ross, Ph.D.*, has served as a member of our board of directors since October 2006. Since 2002, Dr. Ross has served as a Managing Partner at SV Health Investors LLC, a venture capital firm. Previously, Dr. Ross served in various senior management roles at CyThera, Inc., Carta Proteomics Inc., MetaXen LLC, Arris Pharmaceuticals, Incorporated and Genentech, Inc. Dr. Ross currently serves on the boards of directors of Deciphera Pharmaceuticals, Inc., Ophthotech Corporation, Arsanis, Inc. and Catabasis Pharmaceuticals, Inc., as well as on the boards of directors of Adimab Inc. and Ribometrix, Inc., both private companies. Dr. Ross is also on the Board of Overseers of the Thayer School of Engineering at Dartmouth College. Dr. Ross received an A.B. in Chemistry from Dartmouth College and a Ph.D. in Chemistry from the California Institute of Technology and completed post doctorate training in molecular biology at Harvard University. We believe that Dr. Ross is qualified to serve on our board of directors because of his experience in the biopharmaceutical industry, including his expertise in drug discovery and development.

*Armen B. Shanafelt, Ph.D.*, has served as a member of our board of directors since November 2010. Since April 2009, Dr. Shanafelt has served as venture partner, then general partner, of Lilly Ventures, a venture capital firm. Prior to joining Lilly Ventures, Dr. Shanafelt was one of several Chief Science Officers at Eli Lilly and Company, a pharmaceutical research company, specifically responsible for the generation of the early biotherapeutic pipeline which spanned the therapeutic areas of oncology, endocrine and neuroscience. Dr. Shanafelt serves on the boards of directors of Aeglea Biotherapeutics, Inc., Aileron Therapeutics, Inc., Protagonist Therapeutics, Inc. and Surface Oncology, Inc., as well as on the boards of directors of several private companies. Dr. Shanafelt received his B.S. in Chemistry and Physics from Pacific Lutheran University and his Ph.D. in Chemistry from the University of California, Berkeley. He completed his postdoctoral work at DNAX Research Institute. He is a Kauffman Fellow (Class 14). We believe that Dr. Shanafelt is qualified to serve on our board of

directors because of his experience in the pharmaceutical and biotechnology businesses, including his expertise with respect to the generation of early biotherapeutic pipelines and his investment experience while a partner with Lilly Ventures.

#### **Election of Officers**

Our executive officers are appointed by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

#### **Board Composition**

Our board of directors currently consists of nine members. \_\_\_\_\_ of our directors are independent within the meaning of the independent director guidelines of the Nasdaq Global Market, or Nasdaq. Pursuant to our current voting agreement and certificate of incorporation, Michael Ross, Daniel Janney, John Freund, Armen B. Shanafelt, Michael Dybbs, Joseph Lobacki, William Newell, Daniel Petree and Bryan Lawlis have been designated to serve as members of our board. Michael Ross was elected by the holders of our Series A redeemable convertible preferred stock. Daniel Janney was elected by the holders of our Series B redeemable convertible preferred stock. John Freund and Armen B. Shanafelt were elected by the holders of our Series C redeemable convertible preferred stock. Michael Dybbs was elected by the holders of our Series E redeemable convertible preferred stock. Joseph Lobacki was elected by the holders of our common stock. William Newell, Daniel Petree and Bryan Lawlis were elected by the holders of our common stock and redeemable convertible preferred stock, voting together as a single class on an as-converted basis.

The voting agreement and the provisions of our current certificate of incorporation that govern the election and designation of our directors will terminate in connection with this offering, after which no contractual obligations will concern the election of our directors. Each of our current directors will continue to serve until the election and qualification of his successor, or until his earlier death, resignation or removal.

#### **Classified Board of Directors**

Upon the completion of this offering, our board of directors will be divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be subject to re-election for a three-year term. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Our directors will be divided among the three classes as follows:

- the Class I directors will be \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ and their terms will expire at the first annual meeting of stockholders held following the completion of the offering;
- the Class II directors will be \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ and their terms will expire at the second annual meeting of stockholders held following the completion of the offering; and
- the Class III directors will be \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ and their terms will expire at the third annual meeting of stockholders held following the completion of the offering.

Each director's term continues until the election and qualification of his or her successor, or his or her earlier death, resignation or removal. Our restated certificate of incorporation and restated bylaws that will be in effect upon the completion of this offering authorize only our board of directors to fill vacancies on our board of directors. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of our board of directors may have the effect of delaying or preventing changes in control of our company. See the section entitled "Description of Capital Stock—Anti-Takeover Provisions—Restated Certificate of Incorporation and Restated Bylaw Provisions."

## Director Independence

In connection with this offering, we have applied to list our common stock on Nasdaq. Under the rules of Nasdaq, independent directors must comprise a majority of a listed company's board of directors within a specified period following the completion of this offering. In addition, the rules of Nasdaq require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominating and governance committees be independent. Under the rules of Nasdaq, a director will only qualify as an "independent director" if, in the opinion of that company's board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. In order to be considered independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors or any other board committee: (i) accept, directly or indirectly, any consulting, advisory or other compensatory fee from the listed company or any of its subsidiaries; or (ii) be an affiliated person of the listed company or any of its subsidiaries. We intend to satisfy the audit committee independence requirements of Rule 10A-3 as of the completion of this offering. Additionally, compensation committee members must not have a relationship with us that is material to the director's ability to be independent from management in connection with the duties of a compensation committee member.

Our board of directors has undertaken a review of the independence of each director and considered whether each director has a material relationship with us that could compromise his ability to exercise independent judgment in carrying out his responsibilities. As a result of this review, our board of directors determined that all of our directors, except for \_\_\_\_\_, are "independent directors" as defined under the applicable rules and regulations of the Securities and Exchange Commission, or SEC, and the listing requirements and rules of Nasdaq. In making these determinations, our board of directors reviewed and discussed information provided by the directors and us with regard to each director's business and personal activities and relationships as they may relate to us and our management, including the beneficial ownership of our capital stock by each non-employee director and then transactions involving them described in the section entitled "Certain Relationships and Related Party Transactions."

## Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee, a nominating and governance committee and a science and technology committee, each of which will have the composition and responsibilities described below as of the completion of this offering. Each of the below committees has a written charter approved by our board of directors. Upon completion of this offering, copies of each charter will be posted on the investor relations section of our website. Members serve on these committees will serve until their resignation or until otherwise determined by our board of directors.

### Audit Committee

Our audit committee is comprised of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, with \_\_\_\_\_ as the chairman of our audit committee. The composition of our audit committee meets the requirements for independence under the current Nasdaq and SEC rules and regulations. Each member of our audit committee is financially literate. In addition, our board of directors has determined that \_\_\_\_\_ is an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K promulgated under the Securities Act of 1933, as amended. This designation does not impose on him any duties, obligations or liabilities that are greater than are generally imposed on members of our audit committee and our board of directors. Our audit committee is directly responsible for, among other things:

- selecting and hiring our independent registered public accounting firm;

---

## Table of Contents

- the qualifications, independence and performance of our independent auditors;
- the preparation of the audit committee report to be included in our annual proxy statement;
- our compliance with legal and regulatory requirements;
- our accounting and financial reporting processes, including our financial statement audits and the integrity of our financial statements; and
- reviewing and approving related-person transactions.

### **Compensation Committee**

Our compensation committee is comprised of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, with \_\_\_\_\_ as the chairman of our compensation committee. Each member of our compensation committee is a non-employee director, as defined by Rule 16b-3 promulgated under the Exchange Act and meets the requirements for independence under the current Nasdaq listing standards and SEC rules and regulations. Our compensation committee is responsible for, among other things:

- evaluating, recommending, approving and reviewing executive officer compensation arrangements, plans, policies and programs;
- evaluating and recommending non-employee director compensation arrangements for determination by our board of directors;
- administering our cash-based and equity-based compensation plans; and
- overseeing our compliance with regulatory requirements associated with the compensation of directors, officers and employees.

### **Nominating and Governance Committee**

Our nominating and governance committee is comprised of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, with \_\_\_\_\_ as the chairman of our nominating and governance committee. Each member of our nominating and governance committee meets the requirements for independence under the current Nasdaq listing standards. Our nominating and governance committee is responsible for, among other things:

- identifying, considering and recommending candidates for membership on our board of directors;
- overseeing the process of evaluating the performance of our board of directors; and
- advising our board of directors on other corporate governance matters.

### **Science and Technology Committee**

Our science and technology committee is comprised of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, with \_\_\_\_\_ as the chairman of our science and technology committee. Our science and technology committee is responsible for, among other things:

- reviewing our overall scientific, research and development and platform strategy;
- overseeing our research and development and platform programs;
- reviewing external scientific research, discoveries and commercial developments, as appropriate; and
- evaluating our overall intellectual property strategies.

### **Compensation Committee Interlocks and Insider Participation**

None of the members of our compensation committee has at any time been one of our officers or employees, and none of our executive officers has served as a member of the board of directors, or as a member of the compensation or similar committee, of any entity that has one or more executive

## [Table of Contents](#)

officers who served on our board of directors or compensation committee during the year ended December 31, 2017. Prior to establishing the compensation committee, our full board of directors made decisions relating to the compensation of our officers.

### Scientific and Clinical Advisory Boards

We have established a scientific advisory board and a clinical advisory board composed of leading academic and industry scientists. We seek advice and input from these scientists on an ad hoc basis, individually or as a group, to provide scientific and clinical feedback and advice related to our research and development platform and programs. The members of our advisory boards consist of experts across a range of key disciplines relevant to our programs. Our advisors are not our employees or directors and have no decision-making authority over our activities. Our advisors may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. In addition, our advisors may have arrangements with other companies to assist those companies in developing products or technologies that may compete with ours. All of our advisors are affiliated with other entities and devote only a small portion of their time to us. Our advisors are retained under consulting agreements and receive cash compensation based upon consulting services rendered. In addition, in the past we have granted stock options to purchase common stock to certain advisory members for their service.

### Code of Business Conduct and Ethics

Prior to the completion of this offering, our board of directors will adopt a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior officers. The full text of our code of business conduct and ethics will be posted on the investor relations section of our website. The reference to our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of these provisions, on our website or in public filings to the extent required by the applicable rules.

### Non-Employee Director Compensation

The following table presents the total compensation earned by each of our non-employee directors in the year ended December 31, 2017. Our Chief Executive Officer, Mr. Newell, receives no compensation for his service as a director. Other than as described below, none of our non-employee directors received any fees or reimbursement of any expenses (other than customary expenses in connection with the attendance of meetings of our board of directors) or any equity or non-equity awards in the year ended December 31, 2017.

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)(4)	All Other Compensation (\$)	Total (\$)
John G. Freund, M.D.	–	–	–	–
Dan Janney	–	–	–	–
Bryan Lawlis, Ph.D.	–	–	30,000(2)	30,000
Joseph M. Lobacki	–	115,565	25,000(2)	140,565
Daniel H. Petree	–	–	188,571(2)(3)	188,571
Michael Ross, Ph.D.	–	–	–	–
Armen B. Shanafelt, Ph.D.	–	–	–	–

- (1) The amounts reported in this column represent the aggregate grant date fair value of the awards granted under our 2004 Stock Plan, or 2004 Plan, to our directors during the year ended December 31, 2017 as computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant date fair value of the awards reported in the Option Awards column



## Table of Contents

are set forth in Note 11 to our financial statements included elsewhere in this prospectus. Note that the amounts reported in this column reflect the aggregate accounting cost for these awards, and do not necessarily correspond to the actual economic value that may be received by the director from the awards.

- (2) In 2017, Dr. Lawlis and Messrs. Lobacki and Petree received \$30,000, \$25,000 and \$60,000, respectively, pursuant to their respective consulting agreements with us. We expect to terminate the consulting agreements with each of Dr. Lawlis and Messrs. Lobacki and Petree prior to the completion of this offering.
- (3) In 2017, Mr. Petree received approximately \$128,571 pursuant to a letter agreement between us and Four Oaks Partners Consulting LLC, or Four Oaks, relating to consulting services provided by Four Oaks. Mr. Petree is a member and managing director of Four Oaks. For additional information regarding the letter agreement, see the section entitled "Certain Relationships and Related Party Transactions—Letter Agreement with Four Oaks."
- (4) The following table sets forth the aggregate number of shares of our common stock subject to outstanding options held by our non-employee directors as of December 31, 2017:

<b>Director Name</b>	<b>Number of Shares Underlying Options Held as of December 31, 2017(1)</b>
John G. Freund, M.D.	—
Dan Janney	—
Bryan Lawlis, Ph.D.	697,000(2)
Joseph M. Lobacki	593,333(3)
Daniel H. Petree	949,333(4)
Michael Ross, Ph.D.	—
Armen B. Shanafelt, Ph.D.	—

- (1) All of the outstanding equity awards were granted under our 2004 Plan. In the event of a merger or a change in control (as defined in the 2004 Plan), each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation in a merger or change in control refuses to assume or substitute for the option, then the optionee will fully vest in and have the right to exercise the option as to all of the optioned stock, including shares as to which it would not otherwise be vested or exercisable.
- (2) This amount reflects (i) options to purchase 578,333 shares, all of which are fully vested and (ii) options to purchase 118,667 shares, 1/48<sup>th</sup> of which vest monthly following the September 15, 2015 vesting commencement date.
- (3) This amount reflects options to purchase 593,333 shares, 1/24<sup>th</sup> of which vest monthly following the February 6, 2017 vesting commencement date.
- (4) This amount reflects (i) options to purchase 819,347 shares, all of which are fully vested, (ii) options to purchase 77,113 shares, 1/48<sup>th</sup> of which vest monthly following the February 27, 2014 vesting commencement date and (iii) options to purchase 52,873 shares, 1/48<sup>th</sup> of which vest monthly following the September 15, 2015 vesting commencement date.

Prior to this offering, we did not have a formal policy to provide any cash or equity compensation to our non-employee directors for their service on our board of directors or committees of our board of directors. In connection with this offering, our board of directors expects to approve annual non-employee director compensation, which will take effect following the completion of this offering.

**EXECUTIVE COMPENSATION**

The following tables and accompanying narrative disclosure set forth information about the compensation earned by our named executive officers during the year ended December 31, 2017. Our named executive officers, who are our principal executive officer and the two most highly-compensated executive officers (other than our principal executive officer) serving as executive officers as of December 31, 2017, were:

- William J. Newell, Chief Executive Officer and Director;
- Arturo Molina, M.D., M.S., FACP, Chief Medical Officer; and
- Trevor Hallam, Ph.D., Chief Science Officer.

**Summary Compensation Table**

The following table presents summary information regarding the total compensation for services rendered in all capacities that was awarded to and earned by our named executive officers during the year ended December 31, 2017.

<u>Name and Principal Position</u>	<u>Salary(\$)</u>	<u>Non-equity Incentive Plan Compensation (\$)(1)</u>	<u>All Other Compensation(\$)</u>	<u>Total(\$)</u>
William J. Newell <i>Chief Executive Officer</i>	467,620	199,000	35,903(2)	702,523
Arturo Molina <i>Chief Medical Officer</i>	427,450	145,300	–	572,750
Trevor Hallam <i>Chief Science Officer</i>	393,975	134,000	149,951(2)(3)	677,926

- (1) For additional information regarding the non-equity incentive plan compensation, see “—Non-equity Incentive Plan Awards.”
- (2) The amount reported in this column for Mr. Newell and \$17,951 of the amount reported in this column for Dr. Hallam represent the aggregate grant-date fair value of the awards granted under our 2017 Call Option Plan to our named executive officers during the year ended December 31, 2017 as computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant date fair value of the awards reported in the All Other Compensation column are set forth in Note 11 to our financial statements included elsewhere in this prospectus. Note that the amounts reported in this column reflect the aggregate accounting cost for these awards, and do not necessarily correspond to the actual economic value that may be received by the named executive officers from the awards. For additional information regarding all other compensation, see the section entitled “—2017 Call Option Equity Awards.”
- (3) The amount includes \$132,000 for travel and rental housing expenses paid to Dr. Hallam, whose residence is in Pennsylvania, in conjunction with his regular duties in our California facilities.

**Non-equity Incentive Plan Awards**

Annual bonuses for our executive officers are based on the achievement of corporate performance objectives. For the 2017 bonuses, these objectives included the Series E redeemable convertible preferred financing and collaboration with Merck Sharp & Dohme Corp, a subsidiary of Merck & Co., Inc., Kenilworth, NJ. In July 2018, based on the achievement of these corporate performance objectives, our board of directors determined to award bonuses equal to 85% of each executive officer’s target bonus. For 2017, each of Mr. Newell, Drs. Molina and Hallam were awarded the bonuses reflected in the table above, which represented 85% of each individual’s 2017 target bonus of \$233,810, \$170,980 and \$157,590, respectively.

**2017 Call Option Equity Awards**

In February 2017, our board of directors granted Mr. Newell and Dr. Hallam options to purchase 150,000 and 75,000 shares of common stock, respectively, of SutroVax, Inc., or SutroVax, a company in which we own a minority interest, with an exercise price of \$0.76 per share. The options vest as to 25% annually over a period of four years as measured from the date of grant and each 25% tranche that vests in a given year must be exercised within the fourth calendar quarter in the year in which such tranche vests. In 2017, Mr. Newell and Dr. Hallam exercised their vested options in full for a total of 37,500 shares and 18,750 shares in SutroVax, respectively. For additional information regarding the 2017 Call Option Plan, see the section entitled “—Equity Compensation Plans and Other Benefit Plans—2017 Call Option Plan.”

**Outstanding Equity Awards at 2017 Fiscal Year-End Table**

Name	Grant Date(1)	Vesting Commencement Date	Option Awards		Option Exercise Price (\$)	Option Expiration Date
			Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable		
William J. Newell	9/28/2015(2)	9/15/2015	2,144,084	—	0.33	9/27/2025
	9/28/2015(3)	9/15/2015	500,000	—	0.33	9/27/2025
Arturo Molina	2/24/2016(4)	2/22/2016	3,559,998	—	0.39	2/23/2026
Trevor Hallam	2/8/2011(4)	12/1/2010	1,202,131	—	0.12	2/7/2021
	9/20/2012(2)	3/28/2012	704,429	—	0.12	9/19/2022
	2/14/2013(2)	2/14/2013	230,267	—	0.16	2/13/2023
	2/27/2014(2)	2/27/2014	899,651	—	0.16	2/26/2024
	9/28/2015(3)	9/15/2015	560,000	—	0.33	9/27/2025
	9/28/2015(2)	9/15/2015	650,186	—	0.33	9/27/2025

- (1) All of the outstanding equity awards were granted under our 2004 Stock Plan, or 2004 Plan. In the event of a merger or a change in control (as defined in the 2004 Plan), each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation in a merger or change in control refuses to assume or substitute for the option, then the optionee shall fully vest in and have the right to exercise the option as to all of the optioned stock, including shares as to which it would not otherwise be vested or exercisable.
- (2) 1/48<sup>th</sup> of the option vests on each monthly anniversary of the vesting commencement date, subject to the executive’s continued service.
- (3) 100% of the shares subject to the option are fully vested.
- (4) 1/4<sup>th</sup> of the option vested on the one year anniversary of the vesting commencement date and an additional 1/48<sup>th</sup> vests monthly thereafter, subject to the executive’s continued service.

**Employment Agreements**

We have entered into employment agreements with certain senior management personnel in connection with this offering, including our named executive officers. Each of these agreements provides for at-will employment and includes each officer’s base salary, a discretionary annual incentive bonus opportunity and standard employee benefit plan participation. These agreements also provide for severance benefits upon termination of employment or a change in control of our company.

**Mr. Newell’s Employment Offer Letter**

Mr. Newell is party to an offer letter with us dated December 29, 2008 pursuant to which he serves as our Chief Executive Officer. The terms and conditions of his offer letter provide for an annual base

---

## Table of Contents

salary, and eligibility for an annual bonus, health insurance and other benefits, all subject to adjustment from time to time. The offer letter also provides for the grant of an option to purchase 1,428,452 shares of our common stock, with an exercise price equal to the fair market value of our common stock on the date of grant, which has been granted to Mr. Newell. Mr. Newell is an at-will employee.

On January 28, 2009, we entered into a Management Continuity Agreement with Mr. Newell, subsequently amended on September 27, 2016, which entitles Mr. Newell to certain severance benefits.

Upon a Change of Control (as defined in the Management Continuity Agreement) and subject to Mr. Newell's execution of a release of claims in a form satisfactory to us, he will be entitled to (i) 18 months of his then current annual base salary and (ii) 100% accelerated vesting on all outstanding Company stock options and restricted stock. Additionally, Mr. Newell will be entitled to 100% paid premiums for his continued health benefits under COBRA for 18 months if we terminate his employment without Cause (as defined in the Management Continuity Agreement) or Mr. Newell voluntarily terminates his employment for Good Reason (as defined in the Management Continuity Agreement) following such Change of Control.

Absent a Change of Control, if we terminate Mr. Newell's employment without Cause (as defined in the Management Continuity Agreement), or Mr. Newell voluntarily terminates his employment for Good Reason (as defined in the Management Continuity Agreement), and subject to his execution of a separation agreement and release of claims in a form satisfactory to us, he will be entitled to (i) 18 months of his annual base salary, (ii) 18 months of accelerated vesting on all outstanding Company stock options and restricted stock and (iii) 100% paid premiums for his continued health benefits under COBRA for 18 months.

### ***Dr. Hallam's Employment Offer Letter***

Dr. Hallam is party to an offer letter with us dated November 12, 2010 pursuant to which he serves as our Chief Scientific Officer. The terms and conditions of his offer letter provide for an annual base salary and eligibility for an annual bonus, health insurance and other benefits, all subject to adjustment from time to time. The offer letter also provides for the grant of an option to purchase 1,702,131 shares of our common stock, with an exercise price equal to the fair market value of our common stock on the date of grant, which has been granted to Dr. Hallam. Dr. Hallam is an at-will employee.

On September 27, 2016, we entered into an amendment with Dr. Hallam to amend certain severance provisions of his offer letter.

Absent a Change of Control (as defined in his amended offer letter), if we terminate Dr. Hallam's employment without Cause or he resigns for Good Reason (each as defined in his amended offer letter), subject to Dr. Hallam's execution of a separation agreement and release of claims in a form satisfactory to us, he will be entitled to (i) 12 months of his then current annual base salary, (ii) 12 months of accelerated vesting on all outstanding stock options and restricted stock and (iii) reimbursement for paid premiums for his continued health benefits under COBRA for 12 months.

If we terminate Dr. Hallam's employment without Cause or he resigns for Good Reason (each as defined in his amended offer letter) and such termination occurs on or within 12 months following a Change of Control (as defined in his amended offer letter), subject to Dr. Hallam's execution of a separation agreement and release of claims in a form satisfactory to us, he will be entitled to (i) 12 months of his then current annual base salary, (ii) 100% accelerated vesting on all outstanding stock options and restricted stock and (iii) reimbursement for paid premiums for his continued health benefits under COBRA for 12 months.

***Dr. Molina's Employment Offer Letter***

Dr. Molina is a party to an offer letter with us dated December 11, 2015 pursuant to which he serves as our Chief Medical Officer. The terms and conditions of his offer letter provide for an annual base salary and eligibility for an annual bonus, health insurance and other benefits, all subject to adjustment from time to time. The offer letter also provides for the grant of an option to purchase 3,559,998 shares of our common stock, with an exercise price equal to the fair market value of our common stock on the date of grant, which has been granted to Dr. Molina. Dr. Molina is an at-will employee.

On September 27, 2016, we entered into an amendment with Dr. Molina to amend certain severance provisions of his offer letter.

Absent a Change of Control (as defined in his amended offer letter), if we terminate Dr. Molina's employment without Cause or he resigns for Good Reason, (as defined in his amended offer letter), subject to Dr. Molina's execution of a separation agreement and release of claims in a form satisfactory to us, he will be entitled to (i) 12 months of his then current annual base salary, (ii) 12 months of accelerated vesting on all outstanding stock options and restricted stock and (iii) reimbursement for paid premiums for his continued health benefits under COBRA for 12 months.

If we terminate Dr. Molina's employment without Cause or he resigns for Good Reason (each as defined in his amended offer letter) and such termination occurs on or within 12 months following a Change of Control (as defined in his amended offer letter), subject to Dr. Molina's execution of a separation agreement and release of claims in a form satisfactory to us, he will be entitled to (i) 12 months of his then current annual base salary, (ii) 100% accelerated vesting on all outstanding Company stock options and restricted stock and (iii) reimbursement for paid premiums for his continued health benefits under COBRA for 12 months.

**Equity Compensation Plans and Other Benefit Plans**

***2004 Stock Plan***

We maintain the 2004 Plan. The purposes of the 2004 Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of the Company's business. The material terms of the 2004 Plan are summarized below:

*Share Reserve.* As of June 30, 2018, we had 105,854,931 shares of our common stock reserved for issuance pursuant to grants under our 2004 Plan of which 61,410,868 shares remained available for grant. As of June 30, 2018, options to purchase 14,891,683 shares had been exercised and options to purchase 29,804,074 of shares remained outstanding, with a weighted-average exercise price of \$0.29 per share. As of June 30, 2018, 368,777 shares of restricted stock were granted, of which all shares remained outstanding.

*Administration.* Our 2004 Plan is administered by our board of directors or a committee appointed by our board of directors. Subject to the terms of the 2004 Plan, our board of directors has the authority to, among other things, select the persons to whom awards will be granted, construe and interpret our 2004 Plan as well as to prescribe, amend and rescind rules and regulations relating to the 2004 Plan and awards granted thereunder.

*Eligibility.* Pursuant to the 2004 Plan, we may grant incentive stock options only to our employees (including officers and directors who are also employees). We may grant non-statutory stock options and stock purchase rights to our employees (including officers and directors who are also employees), non-employee directors and consultants.

---

## Table of Contents

*Options.* The 2004 Plan provides for the grant of both (i) incentive stock options, which are intended to qualify for tax treatment as set forth under Section 422 of the Internal Revenue Code, as amended, or the Code, and (ii) non-statutory stock options to purchase shares of our common stock, each at a stated exercise price. The exercise price of each incentive stock option must be at least equal to the fair market value of our common stock on the date of grant and the exercise price of each non-statutory option should be at least equal to 85% of the fair market value of our common stock on the date of grant. However, the exercise price of any stock option granted to an individual who owns more than ten percent of the total combined voting power of all classes of our capital stock must be at least equal to 110% of the fair market value of our common stock on the date of grant.

Except in the case of options granted to our officers, directors and consultants, options granted pursuant to our 2004 Plan may become exercisable at a rate of no less than 20% per year over five years from the date grant. The maximum permitted term of options granted under our 2004 Plan is ten years from the date of grant, except that the maximum permitted term of incentive stock options granted to an individual who owns more than ten percent of the total combined voting power of all classes of our capital stock is five years from the date of grant.

*Stock Purchase Rights.* In addition, the 2004 Plan provides for the issuance of stock purchase rights pursuant to which the holder may purchase restricted shares of our common stock. Among other terms and conditions, the Company may retain an option to repurchase the restricted stock within 90 days of the holder's termination of service. Except with respect to shares purchased by our officers, directors and consultants, the repurchase option may not lapse at a rate less than 20% per year over five years from the date of purchase.

*Limited Transferability.* Unless otherwise determined by the Administrator, options and stock purchase rights generally may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will, the laws of descent and distribution or qualified domestic relations orders.

*Change of Control.* In the event of a merger of the Company with or into another corporation, or a change in control (as defined in the 2004 Plan), the 2004 Plan provides that awards may be assumed or an equivalent option may be substituted by the successor corporation (or any parent or subsidiary of such corporation). If any successor corporation fails to assume or substitute such awards, then each award holder will fully vest in his or her stock purchase right and his or her options shall become fully vested and exercisable. Any awards outstanding under the 2004 Plan will terminate if not exercised (as applicable) during a specified time at, or prior to, the consummation of the change in control.

*Adjustments.* In the event of a dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of any of our securities, or other change in our corporate structure affecting the shares of common stock issued under the 2004 Plan, our Board may adjust the number and class of shares that may be delivered under 2004 Plan and/or the number, class and price of shares covered by each outstanding award, in order to prevent diminution or enlargement of benefits or potential benefits intended to be made available under the 2004 Plan or otherwise as required by applicable law.

*Dissolution or Liquidation.* In the event of a proposed dissolution or liquidation, the 2004 Plan provides that each outstanding award will terminate if not exercised prior to the dissolution or liquidation event.

*Termination.* We expect to terminate the 2004 Plan and will cease issuing awards thereunder upon the effective date of our 2018 Equity Incentive Plan (described below), which is the date immediately prior to the date of the effectiveness of the registration statement of which this prospectus

forms a part. Any outstanding options and stock purchase rights granted under the 2004 Plan will remain outstanding, subject to the terms of our 2004 Plan and applicable award agreements, until such awards are exercised (in the case of an option) or vest (in the case of stock purchase right) or until they terminate or expire by their terms.

#### **2017 Call Option Plan**

We currently maintain the 2017 Call Option Plan, pursuant to which our board of directors may grant eligible service providers call options to purchase common stock of SutroVax that are held by us. Such options are generally subject to vesting based on the holder's continued service with us. As of June 30, 2018, we had reserved for distribution 450,000 of our shares in SutroVax pursuant to call options under the 2017 Call Option Plan, of which 30,000 remained available for grant. As of June 30, 2018, 105,000 call options had been exercised and 315,000 remained outstanding. The options vest as to 25% annually over a period of four years as measured from the date of grant and each 25% tranche that vests in a given year must be exercised within the fourth calendar quarter in the year in which such tranche vests. If the vested option is not so exercised, then that vested portion is forfeited by the option holder. Upon a change of control (as defined in the 2017 Call Option Plan) of SutroVax any unvested portion of an outstanding option will become immediately vested and exercisable.

#### **2018 Equity Incentive Plan**

We intend to adopt our 2018 Equity Incentive Plan, or the 2018 Plan, that will become effective on the date immediately prior to the date of the effectiveness of the registration of which this prospectus forms a part and will serve as the successor to our 2004 Plan. Our 2018 Plan authorizes the award of stock options, restricted stock awards, or RSAs, stock appreciation rights, or SARs, restricted stock units, or RSUs, performance awards and stock bonus awards. We have initially reserved \_\_\_\_\_ shares of our common stock, plus any reserved shares not issued or subject to outstanding grants under the 2004 Plan on the effective date of the 2018 Plan, for issuance pursuant to awards granted under our 2018 Plan. The number of shares reserved for issuance under our 2018 Plan will increase automatically on January 1 of each of 2019 through 2028 by the number of shares equal to the lesser of 5% of the aggregate number of outstanding shares of our common stock as of the immediately preceding December 31, or a number as may be determined by our board of directors.

In addition, the following shares will again be available for issuance pursuant to awards granted under our 2018 Plan:

- shares subject to options or SARs granted under our 2018 Plan that cease to be subject to the option or SAR for any reason other than exercise of the option or SAR;
- shares subject to awards granted under our 2018 Plan that are subsequently forfeited or repurchased by us at the original issue price;
- shares subject to awards granted under our 2018 Plan that otherwise terminate without such shares being issued;
- shares subject to awards granted under our 2018 Plan that are surrendered, cancelled or exchanged for cash or a different award (or combination thereof);
- shares issuable upon the exercise of options or subject to other awards granted under our 2004 Plan that cease to be subject to such options or other awards, by forfeiture or otherwise, after the termination of the 2004 Plan;
- shares subject to awards granted under our 2004 Plan that are forfeited or repurchased by us at the original price after the termination of the 2004 Plan; and
- shares subject to awards under our 2004 Plan or our 2018 Plan that are used to pay the exercise price of an option or withheld to satisfy the tax withholding obligations related to any award.

---

## Table of Contents

*Administration.* Our 2018 Plan is expected to be administered by our compensation committee, or by our board of directors acting in place of our compensation committee. Subject to the terms and conditions of the 2018 Plan, the compensation committee will have the authority, among other things, to select the persons to whom awards may be granted, construe and interpret our 2018 Plan as well as to determine the terms of such awards and prescribe, amend and rescind the rules and regulations relating to the plan or any award granted thereunder. The 2018 Plan provides that the board or compensation committee may delegate its authority, including the authority to grant awards, to one or more executive officers to the extent permitted by applicable law, provided that awards granted to non-employee directors may only be determined by our board of directors.

*Eligibility.* Our 2018 Plan provides for the grant of awards to our employees, directors, consultants, independent contractors and advisors. No non-employee director may receive awards under our 2018 Plan that exceed \$ \_\_\_\_\_ in a calendar year or \$ \_\_\_\_\_ in the calendar year of his or her initial services as a non-employee director with us.

*Options.* The 2018 Plan provides for the grant of both incentive stock options intended to qualify under Section 422 of the Code, and non-statutory stock options to purchase shares of our common stock at a stated exercise price. Incentive stock options may only be granted to employees, including officers and directors who are also employees. The exercise price of stock options granted under the 2018 Plan must be at least equal to the fair market value of our common stock on the date of grant. Incentive stock options granted to an individual who holds, directly or by attribution, more than ten percent of the total combined voting power of all classes of our capital stock must have an exercise price of at least 110% the fair market value of our common stock on the date of grant. Subject to stock splits, dividends, recapitalizations or similar events, no more than \_\_\_\_\_ shares may be issued pursuant to the exercise of incentive stock options granted under the 2018 Plan.

Options may vest based on service or achievement of performance conditions. Our compensation committee may provide for options to be exercised only as they vest or to be immediately exercisable, with any shares issued on exercise being subject to our right of repurchase that lapses as the shares vest. The maximum term of options granted under our 2018 Plan is ten years from the date of grant, except that the maximum permitted term of incentive stock options granted to an individual who holds, directly or by attribution, more than ten percent of the total combined voting power of all classes of our capital stock is five years from the date of grant.

*Restricted Stock Awards.* An RSA is an offer by us to sell shares of our common stock subject to restrictions, which may lapse based on the satisfaction of service or achievement of performance conditions. The price, if any, of an RSA will be determined by the compensation committee. Holders of RSAs, unlike holders of options, will have the right to vote and any dividends or stock distributions paid pursuant to RSAs will be accrued and paid when the restrictions on such shares lapse. Unless otherwise determined by the compensation committee at the time of award, vesting will cease on the date the participant no longer provides services to us and unvested shares may be forfeited to or repurchased by us.

*Stock Appreciation Rights.* A SAR provides for a payment, in cash or shares of our common stock (up to a specified maximum of shares, if determined by our compensation committee), to the holder based upon the difference between the fair market value of our common stock on the date of exercise and a predetermined exercise price, multiplied by the number of shares. The exercise price of a SAR must be at least the fair market value of a share of our common stock on the date of grant. SARs may vest based on service or achievement of performance conditions, and may not have a term that is longer than ten years from the date of grant.

*Restricted Stock Units.* RSUs represent the right to receive shares of our common stock at a specified date in the future, and may be subject to vesting based on service or achievement of



---

## Table of Contents

performance conditions. Payment of earned RSUs will be made as soon as practicable on a date determined at the time of grant, and may be settled in cash, shares of our common stock or a combination of both. No RSU may have a term that is longer than ten years from the date of grant.

*Performance Awards.* Performance awards granted pursuant to the 2018 Plan may be in the form of a cash bonus, or an award of performance shares or performance units denominated in shares of our common stock that may be settled in cash, property or by issuance of those shares subject to the satisfaction or achievement of specified performance conditions.

*Stock Bonus Awards.* A stock bonus award provides for payment in the form of cash, shares of our common stock or a combination thereof, based on the fair market value of shares subject such award as determined by our compensation committee. The awards may be granted as consideration for services already rendered, or at the discretion of the compensation committee, may be subject to vesting restrictions based on continued service or performance conditions.

*Dividend Equivalent Rights.* Dividend equivalent rights may be granted at the discretion of our compensation committee, and represent the right to receive the value of dividends, if any, paid by us in respect of the number of shares of our common stock underlying an award. Dividend equivalent rights will be subject to the same vesting or performance conditions as the underlying award and will be paid only at such time as the underlying award has become fully vested. Dividend equivalent rights may be settled in cash, shares or other property, or a combination of thereof as determined by the compensation committee.

*Change of Control.* Our 2018 Plan provides that, in the event of a change of control (as defined in the 2018 Plan), outstanding awards under our 2018 Plan shall be subject to the agreement evidencing the change of control, which need not treat all outstanding awards in an identical manner, and may include one or more of the following: (i) the continuation of the outstanding awards; (ii) the assumption of the outstanding awards by the surviving corporation or its parent; (iii) the substitution by the surviving corporation or its parent of new options or equity awards for the outstanding awards; (iv) the full or partial acceleration of exercisability or vesting or lapse of Company's right to repurchase or forfeiture rights and accelerated expiration of the award; or (v) the settlement of the full value of the outstanding awards (whether or not then vested or exercisable) in cash, cash equivalents, or securities of the successor entity with a fair market value equal to the required amount, as determined in accordance with the 2018 Plan and which payments may be deferred until the date or dates the award would have become exercisable or vested. However, in the event a successor or acquiring corporation refuses to assume, substitute or settle outstanding awards, all such awards will become fully vested and exercisable immediately prior to the consummation of the change in control. In addition, upon a change in control the vesting of all awards granted to our non-employee directors will accelerate and such awards will become exercisable (to the extent applicable) in full prior to the consummation of the change of control at such times and on such conditions as the committee determines.

*Adjustment.* In the event of a change in the number of outstanding shares of our common stock without consideration by reason of a stock dividend, extraordinary dividend or distribution, recapitalization, stock split, reverse stock split, subdivision, combination, consolidation reclassification, spin-off or similar change in our capital structure, appropriate proportional adjustments will be made to the number of shares reserved for issuance under our 2018 Plan; the exercise prices, number and class of shares subject to outstanding options or SARs; the number and class of shares subject to other outstanding awards; and any applicable maximum award limits with respect to incentive stock options.

*Clawback; Transferability.* All awards will be subject to clawback or recoupment pursuant to any compensation clawback or recoupment policy adopted by our board of directors or required by law

---

## Table of Contents

during the term of service of the award holder, to the extent set forth in such policy or applicable agreement. Except in limited circumstances, awards granted under our 2018 Plan may generally not be transferred in any manner prior to vesting other than by will or by the laws of descent and distribution.

*Amendment and Termination.* Our board of directors may amend our 2018 Plan at any time, subject to stockholder approval as may be required. Our 2018 Plan will terminate ten years from the date our board of directors adopts the plan, unless it is terminated earlier by our board of directors. No termination or amendment of the 2018 Plan may adversely affect any then-outstanding award without the consent of the affected participant, except as is necessary to comply with applicable laws.

### **2018 Employee Stock Purchase Plan**

We intend to adopt a 2018 Employee Stock Purchase Plan, or ESPP, that will become effective upon the effectiveness of the registration statement of which this prospectus forms a part in order to enable eligible employees to purchase shares of our common stock with accumulated payroll deductions. Our ESPP is intended to qualify under Section 423 of the Code.

*Shares Available.* We have initially reserved \_\_\_\_\_ shares of our common stock for sale under our ESPP. The aggregate number of shares reserved for sale under our ESPP will increase automatically on January 1st of each of the first ten calendar years after the effective date by the number of shares equal to the lesser of 1% of the total outstanding shares of our common stock as of the immediately preceding December 31 (rounded to the nearest whole share) or a number of shares as may be determined by our board of directors in any particular year. The aggregate number of shares issued over the term of our ESPP, subject to stock-splits, recapitalizations or similar events, may not exceed \_\_\_\_\_ shares of our common stock.

*Administration.* Our compensation committee will administer our ESPP subject to the terms and conditions of the ESPP. Among other things, the compensation committee will have the authority to determine eligibility for participation in the ESPP, designate separate offerings under the plan, and construe, interpret and apply the terms of the plan.

*Eligibility.* Employees eligible to participate in any offering pursuant to the ESPP generally include any employee that is employed by us or certain of our designated subsidiaries at the beginning of the offering period. However, employees who are customarily employed for 20 hours or less per week or for five months or less in a calendar year may not be eligible to participate in the ESPP. In addition, any employee who owns (or is deemed to own as a result of attribution) 5% or more of the total combined voting power or value of all classes of our capital stock, or the capital stock of one of our qualifying subsidiaries, or who will own such amount as a result of participation in the ESPP, will not be eligible to participate in the ESPP. The compensation committee may impose additional restrictions on eligibility from time to time.

*Offerings.* Under our ESPP, eligible employees will be offered the option to purchase shares of our common stock at a discount over a series of offering periods. Each offering period may itself consist of one or more purchase periods. No offering period may be longer than 27 months.

*Participation.* Participating employees will be able to purchase the offered shares of our common stock by accumulating funds through payroll deductions. Participants may select a rate of payroll deduction between 1% and 15% of their compensation. However, a participant may not purchase more than \_\_\_\_\_ shares during any one purchase period, and may not subscribe for more than \$25,000 in fair market value of shares of our common stock (determined as of the date the offering period commences) in any calendar year in which the offering is in effect. Our compensation committee, in its discretion, may set a lower maximum amount of shares which may be purchased.

---

## Table of Contents

The purchase price for shares of our common stock purchased under the ESPP will be 85% of the lesser of the fair market value of our common stock on (i) the first trading day of the applicable offering period or (ii) the last trading day of each purchase period in the applicable offering period.

Once an employee becomes a participant in an offering period, the participant will be automatically enrolled in each subsequent offering period at the same contribution level. A participant may reduce his or her contribution in accordance with procedures set forth by the compensation committee and may withdraw from participation in the ESPP at any time prior the end of an offering period, or such other time as may be specified by the compensation committee. Upon withdrawal, the accumulated payroll deductions will be returned to the participant without interest.

*Adjustments upon Recapitalization.* If the number of outstanding shares of our common stock is changed by stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in our capital structure without consideration, then our compensation committee will proportionately adjust the number and class of common stock that is available under the ESPP, the purchase price and number of shares any participant has elected to purchase as well as the maximum number of shares which may be purchased by participants.

*Change of Control.* If we experience a change of control transaction, any offering period that commenced prior to the closing of the proposed change of control transaction will be shortened and terminated on a new purchase date. The new purchase date will occur on or prior to the closing of the proposed change of control transaction, and our ESPP will then terminate on the closing of the proposed change of control.

*Transferability.* A participant may not assign, transfer, pledge or otherwise dispose of payroll deductions credited to his or her account, or any rights with regard to an election to purchase shares pursuant to the ESPP other than by will or the laws of descent or distribution.

*Amendment; Termination.* The compensation committee may amend, suspend or terminate the ESPP at any time without stockholder consent, except as required by law. Our ESPP will continue until the earlier to occur of (a) termination of the ESPP by the Board, (b) issuance of all of the shares reserved for issuance under the ESPP, or (c) the tenth anniversary of the effective date under the ESPP.

### **401(k) Plan**

We sponsor a retirement savings plan established in April 2008 that is intended to qualify for favorable tax treatment under Section 401(a) of the Code, and contains a cash or deferred feature that is intended to meet the requirements of Section 401(k) of the Code. Participants may make pre-tax and certain after-tax (Roth) salary deferral contributions to the plan from their eligible earnings up to the statutorily prescribed annual limit under the Code. Participants who are 50 years of age or older may contribute additional amounts based on the statutory limits for catch-up contributions. Participant contributions are held in trust as required by law. No minimum benefit is provided under the plan. An employee's interest in his or her salary deferral contributions is 100% vested when contributed. We have the ability to make discretionary contributions under the plan but have not done so to date.

### **Other Benefits**

Our named executive officers are eligible to participate in our employee benefit plans on the same basis as our other employees, including our health and welfare plans.

### **Limitations on Liability and Indemnification Matters**

Our restated certificate of incorporation that will become effective in connection with the completion of this offering contains provisions that limit the liability of our directors for monetary damages to the

---

## Table of Contents

fullest extent permitted by the Delaware General Corporation Law, or DGCL. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or
- any transaction from which the director derived an improper personal benefit.

Our restated certificate of incorporation and our restated bylaws that will become effective in connection with the completion of this offering require us to indemnify our directors and officers to the maximum extent not prohibited by the DGCL and allow us to indemnify other employees and agents as set forth in the DGCL.

We have entered, and intend to continue to enter, into separate indemnification agreements with our directors, officers and certain of our key employees, in addition to the indemnification provided for in our restated certificate of incorporation and restated bylaws. These agreements, among other things, require us to indemnify our directors, officers and key employees for certain expenses, including attorneys' fees, judgments, penalties, fines and settlement amounts actually incurred by these individuals in any action or proceeding arising out of their service to us or any of our subsidiaries or any other company or enterprise to which these individuals provide services at our request. Subject to certain limitations, our indemnification agreements also require us to advance expenses incurred by our directors, officers and key employees for the defense of any action for which indemnification is required or permitted.

We believe that these indemnification provisions and agreements are necessary to attract and retain qualified directors, officers and key employees. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our restated certificate of incorporation and restated bylaws may discourage stockholders from bringing a lawsuit against our directors and officers for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or Securities Act, may be permitted to directors, executive officers or persons controlling us, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

In addition to the compensation arrangements, including employment, termination of employment and change in control arrangements, with our directors and executive officers, including those discussed in the sections entitled “Management” and “Executive Compensation,” the following is a description of each transaction since January 1, 2015 and each currently proposed transaction in which:

- we have been or are to be a participant;
- the amounts involved exceeded or will exceed \$120,000; and
- any of our directors, executive officers or holders of more than 5% of our capital stock, or an affiliate or immediate family member of the foregoing persons, had or will have a direct or indirect material interest.

Other than as described below, there have not been, nor are there any currently proposed, transactions or series of similar transactions to which we have been or will be a party other than compensation arrangements, which are described where required under the section entitled “Executive Compensation.”

**Series E Redeemable Convertible Preferred Stock Financing**

In May and June 2018, we sold an aggregate of 124,840,500 shares of our Series E redeemable convertible preferred stock at a purchase price of \$0.2674 per share for an aggregate purchase price of approximately \$33.4 million. In July 2018, we sold an aggregate of 194,465,218 additional shares of our Series E redeemable convertible preferred stock at a purchase price of \$0.2674 per share for an aggregate purchase price of approximately \$52.0 million. Each share of our Series E redeemable convertible preferred stock will convert automatically into one share of our common stock upon the completion of this offering.

The following table summarizes the Series E redeemable convertible preferred stock purchased by members of our board of directors or their affiliates and holders of more than 5% of our outstanding capital stock:

Name of Stockholder	Shares of Series E	Total Purchase Price (\$)
	Redeemable Convertible Preferred Stock	
Alta Partners VIII, L.P.(1)	18,698,578	4,999,999.81
Celgene Corporation	18,726,075	5,007,352.67
Citadel Multi-Strategy Equities Master Fund Ltd.	37,397,157	9,999,999.79
Lilly Ventures Fund I, LLC(2)	22,438,294	5,999,999.83
Merck Sharpe & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ	74,794,315	19,999,999.84
Samsara BioCapital, L.P.(3)	33,657,442	9,000,000.00
Skyline Venture Partners V, L.P.(4)	18,698,578	4,999,999.81
Entities affiliated with SV Health Investors(5)	9,349,286	2,499,999.60
Vida Ventures, LLC	33,657,442	9,000,000.00

- (1) Alta Partners VIII, L.P., or Alta Partners, holds more than 5% of our outstanding capital stock. Daniel S. Janney, a member of our board of directors is a managing director of Alta Partners Management VIII, LLC, which is the general partner of Alta Partners.
- (2) Lilly Ventures Fund I, LLC, or LVFI, holds more than 5% of our outstanding capital stock. LV Management Group, LLC, or LVMG, is the management company for LVFI and may be deemed to indirectly beneficially own the shares held by LVFI. Armen B. Shanafelt, Ph.D., a member of our board of directors, is a member of LVMG’s management committee.

## Table of Contents

- (3) Samsara BioCapital, L.P., or Samsara, holds more than 5% of our outstanding capital stock. Michael Dybbs, a member of our board of directors, is a partner at Samsara.
- (4) Skyline Venture Partners V, L.P., or Skyline L.P., holds more than 5% of our outstanding capital stock. John G. Freund, a member of our board of directors, is a managing director of Skyline Venture Management V, LLC, which is the general partner of Skyline L.P.
- (5) SV Health Investors and affiliated entities hold more than 5% of our outstanding capital stock. ILSF III, LLC, or ILSF LLC, is the general partner of International Life Sciences Fund III (GP), L.P., which is the general partner of each of International Life Sciences Fund III (LP1), L.P., International Life Sciences Fund III Co-Investment, L.P. and International Life Sciences Fund III Strategic Partners, L.P. SVLSF V, LLC is the general partner of SV Life Sciences Fund V (GP), L.P., which is the general partner of each of SV Life Sciences Fund V, L.P. and SV Life Sciences Fund V Strategic Partners, L.P. Michael Ross, Ph.D., a member of our board of directors, is a member of ILSF LLC's and SVLSF V, LLC's investment committee.

### **Loan to Executive Officer**

In August 2010, we received a promissory note with recourse from Mr. Newell, our Chief Executive Officer, in connection with Mr. Newell's purchase of shares of our common stock. The principal amount of the note was approximately \$200,000, which accrued interest at a rate of 0.53%, compounding semiannually. The note could have been prepaid without penalty and was due on August 30, 2019. The outstanding balance of approximately \$208,000 as of June 30, 2018, including principal and accrued and unpaid interest on the note, was repaid in full in August 2018.

### **Transactions with Celgene**

In September 2014, we entered into a collaboration and license agreement with Celgene Corporation, or Celgene, a beneficial owner of approximately 10.5% of our stock as of July 31, 2018, or the 2014 Celgene Agreement, to jointly develop up to six prioritized anti-cancer bispecific antibodies and/or antibody-drug conjugates directed primarily to immuno-oncology targets. In August 2017, we amended our agreement with Celgene and entered into the 2017 Celgene Agreement to focus the collaboration on four programs and to change certain material features of the 2014 Celgene Agreement. Pursuant to these agreements, we received aggregate payments from Celgene of \$15.0 million, \$35.0 million, \$22.5 million and \$3.2 million during the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively. See the section entitled "Business—Collaborations and License Agreements" for more information.

### **Transactions with Merck**

In July 2018, we entered into a collaboration and license agreement, or the 2018 Merck Agreement, with Merck Sharpe & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, or Merck, a beneficial owner of approximately 12.5% of our stock as of July 31, 2018, to jointly develop up to three research programs focusing on cytokine derivatives for cancer and autoimmune disorders. Pursuant to the 2018 Merck Agreement, we received an upfront payment of \$60.0 million in August 2018 for the research and development of two target programs, with an option for a third program upon the payment of an additional amount. In addition, Merck purchased \$20.0 million in Series E redeemable convertible preferred stock from us in July 2018. See the section entitled "Business—Collaborations and License Agreements" for more information.

In connection with the 2018 Merck Agreement, we also entered into a common stock purchase agreement, or the Merck Purchase Agreement, with Merck. Under the Merck Purchase Agreement, Merck has agreed to purchase from us, concurrently with this offering in a private placement, up to \$10.0 million of shares of our common stock at a price per share equal to the initial public offering price, or up to approximately \_\_\_\_\_ shares based on an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated offering price range set forth on the cover of this prospectus, subject to a 17.5% ownership cap after giving effect to the concurrent private

placement and this offering. The sale of these shares to Merck will not be registered in this offering.

#### **Letter Agreement with Four Oaks**

In April 2012, we entered into a letter agreement with Four Oaks Partners Consulting, LLC, or Four Oaks, to provide advisory services related to licensing, collaboration co-development and co-promotion opportunities with several large pharmaceutical companies. Mr. Petree, one of our directors, is a member and managing director of Four Oaks. We made payments of \$300,000, \$700,000 and \$450,000 during the years ended December 31, 2015, 2016 and 2017, respectively, to Four Oaks for advisory services related to the collaboration with Celgene. While the letter agreement was terminated in October 2013, under the terms of the letter agreement, we will make future payments to Four Oaks of amounts equal to 2% of any future payments received from Celgene under the 2017 Celgene Agreement. We have no other payment obligations to Four Oaks under the terms of the letter agreement.

#### **Agreement with Mr. Petree**

In June 2018, we entered into a side letter to our consulting agreement with Mr. Petree pursuant to which we agreed to pay Mr. Petree a one-time success fee of \$400,000 within 30 days of the execution of a definitive collaboration agreement with a third-party pharmaceutical company. Following the execution of the 2018 Merck Agreement in July 2018, we paid Mr. Petree \$400,000. We expect to terminate the consulting agreement and side letter with Mr. Petree prior to the completion of this offering.

#### **Amended and Restated Investors' Rights Agreement**

We have entered into a third amended and restated investors' rights agreement, dated May 24, 2018, with certain holders of our redeemable convertible preferred stock, including entities with which certain of our directors are affiliated. These stockholders are entitled to rights with respect to the registration of their shares following this offering under the Securities Act of 1933, as amended. For a description of these registration rights, see the section entitled "Description of Capital Stock—Registration Rights."

#### **Equity Grants to Executive Officers and Directors**

We have granted stock options to our executive officers and certain directors, as more fully described in the sections entitled "Executive Compensation" and "Management—Non-Employee Director Compensation," respectively.

#### **Director and Executive Officer Compensation**

Please see the sections entitled "Management—Non-Employee Director Compensation" and "Executive Compensation" for information regarding the compensation of our directors and executive officers.

#### **Employment Agreements**

We have entered into employment agreements with our executive officers. For more information regarding these agreements, see the section entitled "Executive Compensation—Employment Agreements."

#### **Indemnification Agreements**

In connection with this offering, we intend to enter into new indemnification agreements with each of our directors and executive officers. The indemnification agreements, our restated certificate of incorporation and our restated bylaws will require us to indemnify our directors to the fullest extent not prohibited by Delaware law. Subject to certain limitations, our restated bylaws also require us to

advance expenses incurred by our directors and officers. For more information regarding these agreements, see the section entitled “Executive Compensation—Limitations on Liability and Indemnification Matters” for information on our indemnification arrangements with our directors and executive officers.

**Policies and Procedures for Related Party Transactions**

In connection with this offering, we intend to adopt a written related person transactions policy that provides that our executive officers, directors, nominees for election as a director, beneficial owners of more than 5% of our common stock, and any members of the immediate family of and any entity affiliated with any of the foregoing persons, are not permitted to enter into a material related person transaction with us without the review and approval of our audit committee, or a committee composed solely of independent directors in the event it is inappropriate for our audit committee to review such transaction due to a conflict of interest. We expect the policy to provide that any request for us to enter into a transaction with an executive officer, director, nominee for election as a director, beneficial owner of more than 5% of our common stock or with any of their immediate family members or affiliates in which the amount involved exceeds \$120,000 will be presented to our audit committee (or the committee composed solely of independent directors, if applicable) for review, consideration and approval. In approving or rejecting any such proposal, we expect that our audit committee (or the committee composed solely of independent directors, if applicable) will consider the relevant facts and circumstances available and deemed relevant to the audit committee (or the committee composed solely of independent directors, if applicable), including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person’s interest in the transaction.



## PRINCIPAL STOCKHOLDERS

The following table and accompanying footnotes set forth certain information with respect to the beneficial ownership of our common stock at July 31, 2018, and as adjusted to reflect the shares of common stock to be issued and sold in this offering and the concurrent private placement, for:

- each of our directors;
- each of our named executive officers;
- all of our current directors and executive officers as a group; and
- each person, or group of affiliated persons, who beneficially owned more than 5% of our outstanding shares of common stock.

We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as indicated by the footnotes below, we believe, based on information furnished to us, that the persons and entities named in the table below have sole voting and sole investment power with respect to all shares of common stock that they beneficially owned, subject to applicable community property laws.

Beneficial ownership prior to this offering is based on 599,051,455 shares of common stock outstanding as of July 31, 2018, assuming the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into common stock in connection with this offering. Beneficial ownership after this offering is based on \_\_\_\_\_ shares of common stock outstanding, assuming (i) the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into common stock as described above, (ii) the issuance of \_\_\_\_\_ shares of common stock in this offering, (iii) the issuance of \_\_\_\_\_ shares, based upon an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range reflected on the cover of this prospectus, upon the expected net exercise of warrants outstanding at July 31, 2018 that would otherwise expire upon the completion of this offering and (iv) the issuance of up to approximately \_\_\_\_\_ shares of common stock in the concurrent private placement based on the assumed initial public offering price.

[Table of Contents](#)

In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of common stock subject to options held by that person or entity that are currently exercisable or that will become exercisable within 60 days of July 31, 2018. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Sutro Biopharma, Inc., 310 Utah Avenue, Suite 150, South San Francisco, California 94080.

Name of Beneficial Owner	Beneficial Ownership Prior to this Offering		Beneficial Ownership After this Offering and the Concurrent Private Placement	
	Number	Percent	Number	Percent
<b>Directors and Named Executive Officers:</b>				
William Newell(1)	11,189,615	1.9%		%
Arturo Molina, M.D., M.S., FACP(2)	3,559,998	*		
Trevor Hallam, Ph.D.(3)	4,820,172	*		
Michael Dybbs, Ph.D.(4)	—	—		
John G. Freund, M.D.(5)	71,157,946	11.9		
Daniel S. Janney(6)	71,528,473	11.9		
V. Bryan Lawlis, Ph.D.(7)	697,333	*		
Joseph Lobacki(8)	469,721	*		
Daniel H. Petree(9)	947,543	*		
Michael Ross, Ph.D.(10)	66,860,926	11.1		
Armen B. Shanafelt, Ph.D.(11)	55,955,255	9.4		
All executive officers and directors as a group (13 persons)(12)	293,774,901	47.4		
<b>Other 5% Stockholders:</b>				
Alta Partners III, L.P.(6)	71,528,473	11.9		
Celgene Corporation(13)	62,687,276	10.5		
Citadel Multi-Strategy Equities Master Fund Ltd.(14)	37,397,157	6.3		
Lilly Ventures Fund I LLC(11)	55,955,255	9.4		
Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ(15)	74,794,315	12.5		
Samsara BioCapital, L.P.(16)	33,657,442	5.6		
Skyline Venture Partners, L.P.(5)	71,157,946	11.9		
Entities affiliated with SV Health Investors(10)	66,860,926	11.1		
Vida Ventures, LLC(17)	33,657,442	5.6		

\* Represents beneficial ownership of less than one percent.

- (1) Represents (i) 6,830,458 shares of common stock, (ii) 2,644,084 shares underlying options to purchase common stock that are exercisable within 60 days of July 31, 2018, (iii) 767,942 shares of common stock held by Newell Family Revocable Trust DTD 08/14/2008, or Newell Trust, and (iv) 947,131 shares of common stock held by Taluswood Partners, L.P. Mr. Newell is the trustee of the Newell Trust and the general partner of Taluswood Partners, L.P.
- (2) Represents 3,559,998 shares underlying options to purchase common stock that are exercisable within 60 days of July 31, 2018.
- (3) Represents (i) 573,508 shares of common stock and (ii) 4,246,664 shares underlying options to purchase common stock that are exercisable within 60 days of July 31, 2018.
- (4) Dr. Dybbs is a partner of Samsara BioCapital, L.P., or Samsara, but Dr. Dybbs does not hold voting or dispositive power over the shares held of record by Samsara. See note (16) below for more information regarding Samsara.

## Table of Contents

- (5) Represents (i) 71,157,946 shares of common stock held by Skyline Venture Partners V, L.P., or Skyline L.P. John G. Freund, a member of our board of directors, and Yasunori Kaneko are the managing directors of Skyline Venture Management V, LLC, which is the general partner of Skyline L.P. Messrs. Freund and Kaneko may be deemed to share voting and dispositive power over the shares held by Skyline L.P. The address of Skyline L.P. is 525 University Avenue, Suite 1350, Palo Alto, California 94301.
- (6) Represents (i) 70,626,250 shares of common stock and (ii) 902,223 shares underlying a warrant to purchase common stock that is exercisable within 60 days of July 31, 2018 held by Alta Partners VIII, L.P., or Alta Partners. Daniel S. Janney, a member of our board of directors, Farah Champsi and Guy Nohra are the managing directors of Alta Partners Management VIII, LLC, which is the general partner of Alta Partners. Messrs. Janney, Champsi and Nohra may be deemed to share voting and dispositive power over the shares held by Alta Partners. The address of Alta Partners is One Embarcadero Center, Suite 3700, San Francisco, California 94111.
- (7) Represents (i) 90,000 shares of common stock and (ii) 607,333 shares underlying options to purchase common stock that are exercisable within 60 days of July 31, 2018.
- (8) Represents 469,721 shares underlying options to purchase common stock that are exercisable within 60 days of July 31, 2018.
- (9) Represents (i) 11,429 shares underlying a warrant to purchase common stock that is exercisable within 60 days of May 30, 2018 and (ii) 936,114 shares underlying options to purchase common stock that are exercisable within 60 days of July 31, 2018.
- (10) Represents (i)(a) 389,327 shares of common stock and (b) 15,498 shares underlying a warrant to purchase common stock that is exercisable within 60 days of July 31, 2018 held by International Life Sciences Fund III Co-Investment, L.P., or ILSF Co-Investment, (ii) (a) 32,811,007 shares of common stock and (b) 1,306,387 shares underlying a warrant to purchase common stock that is exercisable within 60 days of July 31, 2018 held by International Life Sciences Fund III (LP1), L.P., or ILSF LP1, (iii)(a) 313,452 shares of common stock and (b) 12,476 shares underlying a warrant to purchase common stock that is exercisable within 60 days of July 31, 2018 held by International Life Sciences Fund III Strategic Partners, L.P., or ILSF Strategic Partners, (iv) 31,350,245 shares of common stock held by SV Life Sciences Fund V, L.P., or SV Fund V, and (v) 662,534 shares of common stock held by SV Life Sciences Fund V Strategic Partners, L.P., or SV Strategic Partners. ILSF III, LLC, or ILSF LLC, is the general partner of International Life Sciences Fund III (GP), L.P., which is the general partner of each of ILSF Co-Investment, ILSF LP1 and ILSF Strategic Partners. SVLSF V, LLC is the general partner of SV Life Sciences Fund V (GP), L.P., which is the general partner of each of SV Fund V and SV Strategic Partners. Michael Ross, Ph.D., a member of our board of directors, Kate Bingham, James Garvey and Eugene D. Hill III are the members of ILSF LLC's and SVLSF V, LLC's investment committee and may be deemed to share voting and dispositive power over the shares held by each of ILSF Co-Investment, ILSF LP1, ILSF Strategic Partners, SV Fund V and SV Strategic Partners. The address of SV Health Investors is One Boston Place, 201 Washington Street, Suite 3900, Boston, Massachusetts 02108.
- (11) Represents 55,955,255 shares of common stock held by Lilly Ventures Fund I, LLC, or LVFI. LV Management Group, LLC, or LVMG, is the management company for LVFI and may be deemed to indirectly beneficially own the shares held by LVFI. LVMG's voting and dispositive decisions with respect to the shares held by LVFI are made by LVMG's management committee, which consists of Armen B. Shanafelt, Ph.D., a member of our board of directors, S. Edward Torres and Steven E. Hall, Ph.D. The address of LVFI is Lilly Ventures, 115 W. Washington Street, South Tower, Suite 1680, Indianapolis, Indiana 46204.
- (12) Represents (i) 272,536,311 shares of common stock, (ii) 2,248,013 shares underlying warrants to purchase common stock that are exercisable within 60 days of July 31, 2018 and (iii) 18,990,577 shares underlying options to purchase common stock that are exercisable within 60 days of July 31, 2018.

---

[Table of Contents](#)

- (13) Represents 62,687,276 shares of common stock held by Celgene Corporation. The address of Celgene is 86 Morris Avenue, Summit, New Jersey 07901.
- (14) Represents 37,397,157 shares of common stock held by Citadel Multi-Strategy Equities Master Fund Ltd., or Citadel. Citadel Advisors LLC, or Citadel Advisors, acts as the portfolio manager of Citadel. Citadel Advisors Holdings LP, or CAH, is the sole member of Citadel Advisors, and Citadel GP LLC, or CGP, is the general partner of CAH. Kenneth Griffin owns a controlling interest in CGP and may be deemed to share voting and dispositive power over the shares held by Citadel. The address of Citadel is c/o Citadel Advisors, 601 Lexington Avenue, New York, New York 10022.
- (15) Represents 74,794,315 shares of common stock held by Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth NJ, or Merck. Beneficial ownership following the completion of this offering reflects the issuance of up to approximately \_\_\_\_\_ shares to Merck in a concurrent private placement, based on an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range set forth on the cover page of this prospectus. The address of Merck is 2000 Galloping Hill Road, Kenilworth, New Jersey 07033.
- (16) Represents 33,657,442 shares of common stock held by Samsara. Samsara BioCapital GP, LLC, is the general partner of Samsara, of which Srinivas Akkaraju, M.D., Ph.D. is the sole managing member. Dr. Akkaraju may be deemed to have sole voting and dispositive power over the shares held by Samsara. The address of Samsara is 628 Middlefield Road, Palo Alto, California.
- (17) Represents 33,657,442 shares of common stock held by Vida Ventures, LLC, or Vida. VV Manager, LLC, or VV Manager, is the managing member of Vida. Arjun Goyal, Fred Cohen, Arie Belledegrun, Leonard Potter and Stefan Vitorovic are managers of VV Manager, and may be deemed to share voting and dispositive power over the shares held by Vida. The address of Vida is 40 Broad Street, Suite 201, Boston, Massachusetts 02109.

## DESCRIPTION OF CAPITAL STOCK

The following description summarizes the most important terms of our capital stock, as they will be in effect following this offering. Because it is only a summary, it does not contain all the information that may be important to you. We expect to adopt a restated certificate of incorporation and restated bylaws that will become effective upon the completion of this offering, and this description summarizes provisions that are expected to be included in these documents. For a complete description, you should refer to our restated certificate of incorporation and restated bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part, and to the applicable provisions of Delaware law.

Upon the completion of this offering, our authorized capital stock will consist of \_\_\_\_\_ shares of common stock, \$0.001 par value per share, and \_\_\_\_\_ shares of undesignated preferred stock, \$0.001 par value per share.

Pursuant to the provisions of our current certificate of incorporation all of the outstanding redeemable convertible preferred stock will automatically convert into common stock in connection with the completion of this offering. Our Series A redeemable convertible preferred stock will convert at a ratio of 1:1.5708, our Series B redeemable convertible preferred stock will convert at a ratio of 1:2.0990, our Series C redeemable convertible preferred stock will convert at a ratio of 1:1.3426, our Series C-2 redeemable convertible preferred stock will convert at a ratio of 1:1.4692, our Series D redeemable convertible stock will convert at a ratio of 1:1.4692, our Series D-2 redeemable convertible preferred stock will convert at a ratio of 1:1.5212 and our Series E redeemable convertible preferred stock will convert at a ratio of 1:1. Assuming the effectiveness of this conversion as of July 31, 2018, there were \_\_\_\_\_ shares of our common stock issued, held by approximately \_\_\_\_\_ stockholders of record, and no shares of our redeemable convertible preferred stock outstanding. Our board of directors is authorized, without stockholder approval, to issue additional shares of our capital stock.

### **Common Stock**

#### ***Dividend Rights***

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and then only at the times and in the amounts that our board of directors may determine. See the section entitled "Dividend Policy."

#### ***Voting Rights***

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our restated certificate of incorporation, which means that holders of a majority of the shares of our common stock will be able to elect all of our directors. Our restated certificate of incorporation will establish a classified board of directors, to be divided into three classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

#### ***No Preemptive or Similar Rights***

Our common stock is not entitled to preemptive rights, and is not subject to conversion, redemption or sinking fund provisions.

#### ***Right to Receive Liquidation Distributions***

Upon our liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any

## Table of Contents

participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

### **Preferred Stock**

Immediately prior to the completion of this offering, each outstanding share of preferred stock will be converted into common stock. Our Series A redeemable convertible preferred stock will convert at a ratio of 1:1.5708, our Series B redeemable convertible preferred stock will convert at a ratio of 1:2.0990, our Series C redeemable convertible preferred stock will convert at a ratio of 1:1.3426, our Series C-2 redeemable convertible preferred stock will convert at a ratio of 1:1.4692, our Series D redeemable convertible stock will convert at a ratio of 1:1.4692, our Series D-2 redeemable convertible preferred stock will convert at a ratio of 1:1.5212 and our Series E redeemable convertible preferred stock will convert at a ratio of 1:1.

Following the completion of this offering, our board of directors will be authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers, preferences and rights of the shares of each series and any of their qualifications, limitations or restrictions, in each case without further vote or action by our stockholders. Our board of directors will also be able to increase or decrease the number of shares of any series of preferred stock, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and might adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. We have no current plan to issue any shares of preferred stock.

### **Warrants**

As of June 30, 2018, we had outstanding the following warrants to purchase shares of our capital stock:

<u>Type of Capital Stock Underlying Warrant</u>	<u>Total Number of Shares Subject to Warrants</u>	<u>Exercise Price Per Share(\$)</u>	<u>Issuance Date</u>
Common Stock(1)	40,000	0.16	6/21/2013
Series C Redeemable Convertible Preferred Stock(1)	917,232	0.48	7/13/2010
Series C Redeemable Convertible Preferred Stock(1)	437,276	0.48	9/20/2010
Series C Redeemable Convertible Preferred Stock(1)	437,276	0.48	10/22/2010
Series C Redeemable Convertible Preferred Stock(2)	687,928	0.48	11/18/2011
Series E Redeemable Convertible Preferred Stock(3)	1,409,332	0.32	8/4/2017

- (1) The exercise price of these warrants may be paid either in cash or by surrendering the right to receive shares having a value equal to the exercise price. These warrants will expire immediately prior to the completion of this offering if not exercised.
- (2) The exercise price of these warrants may be paid either in cash or by surrendering the right to receive shares having a value equal to the exercise price. These warrants will convert into warrants to receive 923,612 shares of our common stock upon the completion of this offering.
- (3) In connection with the July 2018 closing of the Series E redeemable convertible preferred stock financing, these warrants were adjusted such that they represented warrants to purchase a total of

---

## [Table of Contents](#)

1,682,871 shares of Series E redeemable convertible preferred stock at an exercise price of \$0.2674 per share. The exercise price of these warrants may be paid either in cash or by surrendering the right to receive shares having a value equal to the exercise price. These warrants will convert into warrants to receive 1,682,871 shares of our common stock upon the completion of this offering.

### **Stock Options**

As of June 30, 2018, we had outstanding options to purchase an aggregate 29,804,074 shares of our common stock, with a weighted-average exercise price of \$0.29.

### **Registration Rights**

Pursuant to the terms of our amended and restated investors' rights agreement, immediately following this offering, the holders of \_\_\_\_\_ shares of our common stock will be entitled to rights with respect to the registration of these shares under the Securities Act of 1933, as amended, or the Securities Act, as described below. We refer to these shares collectively as registrable securities.

#### ***Demand Registration Rights***

Beginning 180 days after the completion of this offering, the holders of at least a majority of the then-outstanding registrable securities may make a written request to us for the registration under the Securities Act of registrable securities representing at least a majority of the then outstanding registrable securities held by such holders. Promptly following such request, we are obligated to provide written notice of such request to all stockholders to file a registration statement under the Securities Act covering all registrable securities that the initiating holders requested to be registered and any additional registrable securities requested to be included in such registration by any other holders. We are only required to file two registration statements that are declared effective upon exercise of these demand registration rights. We may postpone taking action with respect to such filing not more than once during any 12-month period for a total period of not more than 90 days, if within 30 days after receiving a request for registration, we furnish to the holders requesting such registration a certificate signed by our Chief Executive Officer stating that, in the good faith judgment of our board of directors, it would be seriously detrimental to us and our stockholders for such registration statement to be effected at such time.

#### ***Form S-3 Registration Rights***

Any holder of then-outstanding registrable securities can request that we register all or part of their shares on Form S-3 if we are eligible to file a registration statement on Form S-3 and if the aggregate price to the public of the shares offered is at least \$3.0 million. The stockholders may only require us to effect two registration statements on Form S-3 in a 12-month period. We may postpone taking action with respect to such filing twice during any 12-month period for a total cumulative period of not more than 120 days if our board of directors determines in its good faith judgment that the filing would be seriously detrimental to us and our stockholders.

#### ***Piggyback Registration Rights***

If we register any of our securities for public sale, holders of then-outstanding registrable securities or their permitted transferees will have the right to include their registrable securities in the registration statement. However, this right does not apply to a registration relating to this offering, a Form S-3 registration as described above, employee benefit plans or a registration relating to a corporate reorganization. The underwriters of any underwritten offering will have the right to limit the number of shares registered by these holders if they determine that marketing factors require limitation, in which case the number of shares to be registered will be apportioned pro rata among these holders, according to the total number of registrable securities originally requested by such holders to be

included in the registration statement. However, the number of shares to be registered by these holders cannot be reduced below 40% of the registrable securities such holders requested to be included in such offering.

**Expenses of Registration Rights**

We generally will pay all expenses, other than underwriting discounts and commissions.

**Expiration of Registration Rights**

The registration rights described above will expire, with respect to any particular holder of these rights, on the earlier of a deemed liquidation event, as defined in our restated certificate of incorporation, and such time after this offering as the registrable securities held by such holder may be sold within any ninety day period without restriction pursuant to Rule 144 promulgated under the Securities Act.

**Anti-Takeover Provisions**

The provisions of Delaware General Corporation Law, or DGCL, our restated certificate of incorporation and our restated bylaws, as we expect they will be in effect upon the completion of this offering, could have the effect of delaying, deferring or discouraging another person from acquiring control of our company. These provisions, which are summarized below, may have the effect of discouraging takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

**Delaware Law**

We are subject to the provisions of Section 203 of the DGCL regulating corporate takeovers. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date on which the person became an interested stockholder unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not the outstanding voting stock owned by the interested stockholder, (i) shares owned by persons who are directors and also officers and (ii) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to the date of the transaction, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66.67% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction or series of transactions together resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a



corporation's outstanding voting stock. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may also discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

***Restated Certificate of Incorporation and Restated Bylaw Provisions***

Our restated certificate of incorporation and our restated bylaws, as we expect they will be in effect upon the completion of this offering, include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our company, including the following:

- *Board of Directors Vacancies.* Our restated certificate of incorporation and restated bylaws will authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors is permitted to be set only by a resolution adopted by a majority vote of our entire board of directors. These provisions would prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors but promotes continuity of management.
- *Classified Board.* Our restated certificate of incorporation and restated bylaws will provide that our board of directors is classified into three classes of directors, each with staggered three-year terms. A third party may be discouraged from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time consuming for stockholders to replace a majority of the directors on a classified board of directors. See the section entitled "Management—Board Composition."
- *Stockholder Action; Special Meetings of Stockholders.* Our restated certificate of incorporation will provide that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock would not be able to amend our restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our restated bylaws. Further, our restated bylaws will provide that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our Chief Executive Officer or our President, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.
- *Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our restated bylaws will provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our restated bylaws also will specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions might also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.
- *No Cumulative Voting.* The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our restated certificate of incorporation and restated bylaws will not provide for cumulative voting.

---

## Table of Contents

- *Directors Removed Only for Cause.* Our restated certificate of incorporation will provide that stockholders may remove directors only for cause and only by the affirmative vote of the holders of at least two-thirds of our outstanding common stock.
- *Amendment of Charter Provisions.* Any amendment of the above expected provisions in our restated certificate of incorporation would require approval by holders of at least two-thirds of our outstanding common stock.
- *Issuance of Undesignated Preferred Stock.* Our board of directors has the authority, without further action by the stockholders, to issue up to \_\_\_\_\_ shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock would enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by merger, tender offer, proxy contest or other means.
- *Choice of Forum.* Our restated certificate of incorporation will provide that the Court of Chancery of the State of Delaware will be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the DGCL, our restated certificate of incorporation or our restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. In addition, our amended and restated bylaws will also provide that unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable.

### **Transfer Agent and Registrar**

Upon the completion of this offering, the transfer agent and registrar for our common stock will be American Stock Transfer & Trust Company, LLC. The transfer agent's address is 6201 15th Avenue, Brooklyn, New York 11219 and its telephone number is (800) 937-5449.

### **The Nasdaq Global Market Listing**

We have applied to list our common stock on the Nasdaq Global Market under the symbol "STRO."

## SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and we cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock prevailing from time to time. Nevertheless, sales of substantial amounts of our common stock, including shares issued upon exercise of outstanding options and warrants, in the public market following this offering could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through the sale of our equity securities.

Upon the completion of this offering and the concurrent private placement, we will have a total of \_\_\_\_\_ shares of our common stock outstanding, assuming (i) the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into an aggregate of \_\_\_\_\_ shares of our common stock, (ii) the issuance of \_\_\_\_\_ shares of common stock in this offering, (iii) the issuance of \_\_\_\_\_ shares of common stock, based upon an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the estimated price range reflected on the cover of this prospectus, upon the expected net exercise of warrants that would otherwise expire upon the completion of this offering and (iv) the issuance of up to approximately \_\_\_\_\_ shares of common stock in the concurrent private placement based on the assumed initial public offering price. Of these outstanding shares, all of the shares of common stock sold in this offering will be freely tradable, except that any shares purchased in this offering by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, can only be sold in compliance with the Rule 144 limitations described below or in compliance with the lock-up agreements.

The remaining outstanding shares of our common stock will be deemed "restricted securities" as defined in Rule 144. Restricted securities may be sold in the public market only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rule 144 or Rule 701 promulgated under the Securities Act, which rules are summarized below. In addition, substantially all of our security holders have, or will have, entered into market standoff agreements with us or lock-up agreements with the underwriters under which they have agreed, subject to specific exceptions, not to sell any of our stock for at least 180 days following the date of this prospectus, as described below. As a result of these agreements and the provisions of our amended and restated investors' rights agreement described above under the section entitled "Description of Capital Stock—Registration Rights," subject to the provisions of Rule 144 or Rule 701, shares will be available for sale in the public market as follows:

- beginning on the date of this prospectus, all of the shares sold in this offering will be immediately available for sale in the public market; and
- beginning 181 days after the date of this prospectus, \_\_\_\_\_ additional shares will become eligible for sale in the public market, of which \_\_\_\_\_ shares will be held by affiliates and subject to the volume and other restrictions of Rule 144, as described below.

### Lock-Up/Market Standoff Agreements

All of our directors and officers and substantially all of our security holders are, or will be, subject to lock-up agreements or market standoff provisions that prohibit them from offering for sale, selling, contracting to sell, granting any option for the sale of, transferring or otherwise disposing of any shares of our common stock, options or warrants to acquire shares of our common stock or any security or instrument related to our common stock, or entering into any swap, hedge or other arrangement that transfers any of the economic consequences of ownership of our common stock, for a period of 180 days following the date of this prospectus without the prior written consent of Cowen and Company, LLC and Piper Jaffray & Co., subject to certain exceptions. See the section entitled "Underwriting."

#### **Rule 144**

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the three months preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person would be entitled to sell those shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lock-up and market standoff agreements described above, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately \_\_\_\_\_ shares immediately after this offering and the concurrent private placement; or
- the average reported weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

#### **Rule 701**

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding three months to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares, however, are required by that rule to wait until 90 days after the date of this prospectus before selling those shares pursuant to Rule 701 and are subject to the lock-up and market standoff agreements described above.

#### **Form S-8 Registration Statement**

In connection with this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of our common stock subject to outstanding options and the shares of our common stock reserved for issuance under our stock plans. We expect to file this registration statement as soon as permitted under the Securities Act. However, the shares registered on Form S-8 may be subject to the volume limitations and the manner of sale, notice and public information requirements of Rule 144 and will not be eligible for resale until expiration of the lock-up and market standoff agreements to which they are subject. Of the 29,804,074 shares of our common stock that were subject to options outstanding as of June 30, 2018, options to purchase 22,413,374 shares of common stock were vested as of June 30, 2018. Shares of our common stock underlying outstanding options will not be eligible for sale until expiration of the 180 day lock-up and market standoff agreements to which they are subject.

**Registration Rights**

We have granted demand, piggyback and Form S-3 registration rights to certain of our stockholders to sell our common stock. Registration of the sale of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates. For a further description of these rights, see the section entitled “Description of Capital Stock—Registration Rights.”

## MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following summary describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our common stock acquired in this offering by Non-U.S. Holders (as defined below). This discussion does not address all aspects of U.S. federal income taxes, does not discuss the potential application of the alternative minimum tax or Medicare Contribution tax on net investment income and does not deal with state or local taxes, U.S. federal gift and estate tax laws, except to the limited extent provided below, or any non-U.S. tax consequences that may be relevant to Non-U.S. Holders in light of their particular circumstances. This summary does not apply to any shares acquired in the concurrent private placement.

Special rules different from those described below may apply to certain Non-U.S. Holders that are subject to special treatment under the Internal Revenue Code of 1986, as amended, or the Code, such as:

- insurance companies, banks and other financial institutions;
- tax-exempt organizations (including private foundations) and tax-qualified retirement plans;
- foreign governments and international organizations;
- broker-dealers and traders in securities;
- U.S. expatriates and certain former citizens or long-term residents of the United States;
- persons required for U.S. federal income tax purposes to conform the timing of income accruals to their financial statements under Section 451(b) of the Code;
- persons that own, or are deemed to own, more than 5% of our capital stock;
- "controlled foreign corporations," "passive foreign investment companies" and corporations that accumulate earnings to avoid U.S. federal income tax;
- persons that hold our common stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or integrated investment or other risk reduction strategy;
- persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, for investment purposes); and
- partnerships and other pass-through entities, and investors in such pass-through entities (regardless of their places of organization or formation).

Such Non-U.S. Holders are urged to consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

Furthermore, the discussion below is based upon the provisions of the Code, and U.S. Treasury Regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, possibly retroactively, and are subject to differing interpretations which could result in U.S. federal income tax consequences different from those discussed below. We have not requested a ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions or will not take a contrary position regarding the tax consequences described herein, or that any such contrary position would not be sustained by a court.

PERSONS CONSIDERING THE PURCHASE OF OUR COMMON STOCK PURSUANT TO THIS OFFERING SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF ACQUIRING, OWNING AND DISPOSING OF OUR COMMON STOCK IN LIGHT OF THEIR PARTICULAR SITUATIONS AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION, INCLUDING ANY STATE, LOCAL OR NON-U.S. TAX CONSEQUENCES OR ANY U.S. FEDERAL NON-INCOME TAX CONSEQUENCES, AND THE POSSIBLE APPLICATION OF TAX TREATIES.

---

## Table of Contents

For the purposes of this discussion, a “Non-U.S. Holder” is a beneficial owner of common stock that is not a U.S. Holder or a partnership for U.S. federal income tax purposes. A “U.S. Holder” means a beneficial owner of our common stock that is, for U.S. federal income tax purposes, (a) an individual citizen or resident of the United States, (b) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes), created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (d) a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons (within the meaning of Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If you are an individual non-U.S. citizen, you may, in some cases, be deemed to be a resident alien (as opposed to a nonresident alien) by virtue of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. Generally, for this purpose, all the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year, are counted.

Resident aliens are generally subject to U.S. federal income tax as if they were U.S. citizens. Individuals who are uncertain of their status as resident or nonresident aliens for U.S. federal income tax purposes are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership or disposition of our common stock.

### **Distributions**

We do not expect to make any distributions on our common stock in the foreseeable future. If we do make distributions on our common stock, however, such distributions made to a Non-U.S. Holder of our common stock will constitute dividends for U.S. tax purposes to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Distributions in excess of our current and accumulated earnings and profits will constitute a return of capital that is applied against and reduces, but not below zero, a Non-U.S. Holder’s adjusted tax basis in our common stock. Any remaining excess will be treated as gain realized on the sale or exchange of our common stock as described below under the section entitled “—Gain on Disposition of Our Common Stock.”

Any distribution on our common stock that is treated as a dividend paid to a Non-U.S. Holder that is not effectively connected with the holder’s conduct of a trade or business in the United States will generally be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty between the United States and the Non-U.S. Holder’s country of residence. To obtain a reduced rate of withholding under a treaty, a Non-U.S. Holder generally will be required to provide the applicable withholding agent with a properly executed IRS Form W-8BEN, IRS Form W-8BEN-E or other appropriate form, certifying the Non-U.S. Holder’s entitlement to benefits under that treaty. Such form must be provided prior to the payment of dividends and must be updated periodically. If a Non-U.S. Holder holds stock through a financial institution or other agent acting on the holder’s behalf, the holder will be required to provide appropriate documentation to such agent. The holder’s agent may then be required to provide certification to the applicable withholding agent, either directly or through other intermediaries. If you are eligible for a reduced rate of U.S. withholding tax under an income tax treaty, you should consult with your own tax advisor to determine if you are able to obtain a refund of any excess amounts withheld by timely filing an appropriate claim for a refund with the IRS.

We generally are not required to withhold tax on dividends paid to a Non-U.S. Holder that are effectively connected with the holder’s conduct of a trade or business within the United States (and, if

required by an applicable income tax treaty, are attributable to a permanent establishment that the holder maintains in the United States) if a properly executed IRS Form W-8ECI, stating that the dividends are so connected, is furnished to us (or, if stock is held through a financial institution or other agent, to the applicable withholding agent). In general, such effectively connected dividends will be subject to U.S. federal income tax on a net income basis at the regular graduated rates applicable to U.S. persons. A corporate Non-U.S. Holder receiving effectively connected dividends may also be subject to an additional "branch profits tax," which is imposed, under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) on the corporate Non-U.S. Holder's effectively connected earnings and profits, subject to certain adjustments.

See also the section below entitled "—Foreign Accounts" for additional withholding rules that may apply to dividends paid to certain foreign financial institutions or non-financial foreign entities.

#### **Gain on Disposition of Our Common Stock**

Subject to the discussions below under the sections entitled "—Backup Withholding and Information Reporting" and "—Foreign Accounts," a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax with respect to gain realized on a sale or other disposition of our common stock unless (a) the gain is effectively connected with a trade or business of the holder in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that the holder maintains in the United States), (b) the Non-U.S. Holder is a nonresident alien individual and is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met, or (c) we are or have been a "United States real property holding corporation" within the meaning of Code Section 897(c)(2) at any time within the shorter of the five-year period preceding such disposition or the holder's holding period in the common stock.

If you are a Non-U.S. Holder described in (a) above, you will be required to pay tax on the net gain derived from the sale at the regular graduated U.S. federal income tax rates applicable to U.S. persons. Corporate Non-U.S. Holders described in (a) above may also be subject to the additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual Non-U.S. Holder described in (b) above, you will be required to pay a flat 30% tax on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though you are not considered a resident of the United States), provided you have timely filed U.S. federal income tax returns with respect to such losses. With respect to (c) above, in general, we would be a United States real property holding corporation if U.S. real property interests as defined in the Code and the U.S. Treasury Regulations comprised (by fair market value) at least half of our worldwide real property interests plus our other assets used or held for use in a trade or business. We believe that we are not, and do not anticipate becoming, a United States real property holding corporation. However, there can be no assurance that we will not become a United States real property holding corporation in the future. Even if we are treated as a U.S. real property holding corporation, gain realized by a Non-U.S. Holder on a disposition of our common stock will not be subject to U.S. federal income tax so long as (1) the Non-U.S. Holder owned, directly, indirectly or constructively, no more than five percent of our common stock at all times within the shorter of (i) the five-year period preceding the disposition or (ii) the holder's holding period and (2) our common stock is regularly traded on an established securities market. There can be no assurance that our common stock will qualify as regularly traded on an established securities market.

See the section entitled "—Foreign Accounts" for additional information regarding withholding rules that may apply to proceeds of a disposition of our common stock paid to foreign financial institutions or non-financial foreign entities.



### **U.S. Federal Estate Tax**

The estates of nonresident alien individuals generally are subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and, therefore, will be included in the taxable estate of a nonresident alien decedent, unless an applicable estate tax treaty between the United States and the decedent's country of residence provides otherwise. The terms "resident" and "nonresident" are defined differently for U.S. federal estate tax purposes than for U.S. federal income tax purposes. Investors are urged to consult their own tax advisors regarding the U.S. federal estate tax consequences of the ownership or disposition of our common stock.

### **Backup Withholding and Information Reporting**

Generally, we or certain financial middlemen must report information to the IRS with respect to any dividends we pay on our common stock including the amount of any such dividends, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder to whom any such dividends are paid. Pursuant to tax treaties or certain other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Dividends paid by us (or our paying agents) to a Non-U.S. Holder may also be subject to U.S. backup withholding. U.S. backup withholding generally will not apply to a Non-U.S. Holder who provides a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or otherwise establishes an exemption, provided that the applicable withholding agent does not have actual knowledge or reason to know the holder is a U.S. person.

Under current U.S. federal income tax law, U.S. information reporting and backup withholding requirements generally will apply to the proceeds of a disposition of our common stock effected by or through a U.S. office of any broker, U.S. or non-U.S., unless the Non-U.S. Holder provides a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or otherwise meets documentary evidence requirements for establishing non-U.S. person status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding requirements will not apply to a payment of disposition proceeds to a Non-U.S. Holder where the transaction is effected outside the United States through a non-U.S. office of a non-U.S. broker. Information reporting and backup withholding requirements may, however, apply to a payment of disposition proceeds if the broker has actual knowledge, or reason to know, that the holder is, in fact, a U.S. person. For information reporting purposes, certain brokers with substantial U.S. ownership or operations will generally be treated in a manner similar to U.S. brokers.

Backup withholding is not an additional tax. If backup withholding is applied to you, you should consult with your own tax advisor to determine whether you have overpaid your U.S. federal income tax, and whether you are able to obtain a tax refund or credit of the overpaid amount.

### **Foreign Accounts**

In addition, U.S. federal withholding taxes may apply under the Foreign Account Tax Compliance Act, or FATCA, on certain types of payments, including dividends and, on or after January 1, 2019, the gross proceeds of a disposition of our common stock, made to non-U.S. financial institutions and certain other non-U.S. entities. Specifically, a 30% withholding tax may be imposed on dividends on, or, on or after January 1, 2019, gross proceeds from the sale or other disposition of, our common stock paid to a "foreign financial institution" or a "non-financial foreign entity" (each as defined in the Code), unless (1) the foreign financial institution agrees to undertake certain diligence and reporting obligations, (2) the non-financial foreign entity either certifies it does not have any "substantial United States owners" (as defined in the Code) or furnishes identifying information regarding each substantial United States owner, or (3) the foreign financial institution or non-financial foreign entity otherwise

---

[Table of Contents](#)

qualifies for an exemption from these rules. The 30% federal withholding tax described in this paragraph cannot be reduced under an income tax treaty with the United States. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in (1) above, it must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by certain "specified United States persons" or "United States-owned foreign entities" (each as defined in the Code), annually report certain information about such accounts, and withhold 30% on certain payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules.

Prospective investors should consult their tax advisors regarding the potential application of withholding under FATCA to their investment in our common stock.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAW, AS WELL AS TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL, NON-U.S. OR U.S. FEDERAL NON-INCOME TAX LAWS SUCH AS ESTATE AND GIFT TAX.

**UNDERWRITING**

We and the underwriters for the offering named below have entered into an underwriting agreement with respect to the common stock being offered. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase from us the number of shares of our common stock set forth opposite its name below. Cowen and Company, LLC and Piper Jaffray & Co. are the representatives of the underwriters.

<u>Underwriter</u>	<u>Number of Shares</u>
Cowen and Company, LLC	
Piper Jaffray & Co.	
JMP Securities LLC	
Wedbush Securities Inc.	
Total	

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent and that the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased, other than those shares covered by the option to purchase additional shares described below. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against specified liabilities, including liabilities under the Securities Act of 1933, as amended, or Securities Act, and to contribute to payments the underwriters may be required to make in respect thereof.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel and other conditions specified in the underwriting agreement. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

*Option to Purchase Additional Shares.* We have granted to the underwriters an option to purchase up to additional shares of common stock at the public offering price, less the underwriting discount. This option is exercisable for a period of 30 days. The underwriters may exercise this option solely for the purpose of covering overallocments, if any, made in connection with the sale of common stock offered hereby. To the extent that the underwriters exercise this option, the underwriters will purchase additional shares from us in approximately the same proportion as shown in the table above.

*Discounts and Commissions.* The following table shows the public offering price, underwriting discount and proceeds, before expenses to us. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

## Table of Contents

We estimate that the total expenses of the offering, excluding underwriting discount, will be approximately \$ \_\_\_\_\_ and are payable by us. We have agreed to reimburse the underwriters for certain of their expenses in an amount up to \$ \_\_\_\_\_.

		Total	
	Per Share	Without Option to Purchase Additional Shares Exercise	With Full Option to Purchase Additional Shares Exercise
Public offering price			
Underwriting discount			
Proceeds, before expenses, to us			

The underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus. The underwriters may offer the shares of common stock to securities dealers at the public offering price less a concession not in excess of \$ \_\_\_\_\_ per share. If all of the shares are not sold at the public offering price, the underwriters may change the offering price and other selling terms.

*Discretionary Accounts.* The underwriters do not intend to confirm sales of the shares to any accounts over which they have discretionary authority.

*Market Information.* Prior to this offering, there has been no public market for shares of our common stock. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. In addition to prevailing market conditions, the factors to be considered in these negotiations will include:

- the history of, and prospects for, our company and the industry in which we compete;
- our past and present financial information;
- an assessment of our management; its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

We have applied to list our common stock on the Nasdaq Global Market under the symbol "STRO."

*Stabilization.* In connection with this offering, the underwriters may engage in stabilizing transactions, overallotment transactions, syndicate covering transactions, penalty bids and purchases to cover positions created by short sales.

- Stabilizing transactions permit bids to purchase shares of common stock so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.
- Overallotment transactions involve sales by the underwriters of shares of common stock in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position which may be either a covered short position or a naked short

position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares in the option to purchase additional shares. The underwriters may close out any short position by exercising their option to purchase additional shares and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which they may purchase shares through exercise of the option to purchase additional shares. If the underwriters sell more shares than could be covered by exercise of the option to purchase additional shares and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by that syndicate member is purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the Nasdaq Stock Market, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

*Passive Market Making.* In connection with this offering, underwriters and selling group members may engage in passive market making transactions in our common stock on the Nasdaq Stock Market in accordance with Rule 103 of Regulation M under the Securities Exchange Act of 1934, as amended, during a period before the commencement of offers or sales of common stock and extending through the completion of the distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, such bid must then be lowered when specified purchase limits are exceeded.

*Lock-Up Agreements.* Pursuant to certain "lock-up" agreements, we and our executive officers, directors and substantially all of our other stockholders, have agreed, subject to certain exceptions, not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of or announce the intention to otherwise dispose of, or enter into any swap, hedge or similar agreement or arrangement that transfers, in whole or in part, the economic consequence of ownership of, directly or indirectly, or make any demand or request or exercise any right with respect to the registration of, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any common stock or securities convertible into or exchangeable or exercisable for any common stock without the prior written consent of Cowen and Company, LLC and Piper Jaffray & Co., for a period of 180 days after the date of the pricing of the offering.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for common stock. It also applies to common stock owned now or acquired later by the

---

## Table of Contents

person executing the agreement or for which the person executing the agreement later acquires the power of disposition. The lock-up provision will not restrict broker-dealers from engaging in market making and similar activities conducted in the ordinary course of their business.

Cowen and Company, LLC and Piper Jaffray & Co., in their sole discretion, may release our common stock and other securities subject to the lock-up agreements described above in whole or in part at any time. When determining whether or not to release our common stock and other securities from lock-up agreements, Cowen and Company, LLC and Piper Jaffray & Co. will consider, among other factors, the holder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time of the request. In the event of such a release or waiver for one of our directors or officers, Cowen and Company, LLC and Piper Jaffray & Co. shall provide us with notice of the impending release or waiver at least three business days before the effective date of such release or waiver and we will announce the impending release or waiver by issuing a press release at least two business days before the effective date of the release or waiver.

*Electronic Offer, Sale and Distribution of Shares.* A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus in electronic format, the information on these websites is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriter in its capacity as underwriter, and should not be relied upon by investors.

*Other Relationships.* Certain of the underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us and our affiliates for which they have received, and may in the future receive, customary fees.

### **Selling Restrictions.**

*Canada.* The common stock may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the common stock must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

## Table of Contents

*European Economic Area.* In relation to each Member State of the European Economic Area, or each, a Relevant Member State, no offer of common stock may be made to the public in that Relevant Member State other than:

- to any legal entity which is a qualified investor, as defined in the European Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives; or
- in any other circumstances falling within Article 3(2) of the European Prospectus Directive,

provided that no such offer of shares shall require the Company or the representative(s) to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

The Company, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

This prospectus has been prepared on the basis that any offer of shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Relevant Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the Company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Company nor the underwriters have authorized, nor do they authorize, the making of any offer of shares in circumstances in which an obligation arises for the Company or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

*United Kingdom.* In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are

## Table of Contents

“qualified investors” (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”).

Any person in the United Kingdom that is not a relevant person should not act or rely on the information included in this document or use it as basis for taking any action. In the United Kingdom, any investment or investment activity that this document relates to may be made or taken exclusively by relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

*France.* This prospectus has not been prepared in the context of a public offering of financial securities in France within the meaning of Article L.411-1 of the French Code Monétaire et Financier and Title I of Book II of the Règlement Général of the Autorité des marchés financiers, or the AMF, and therefore has not been and will not be filed with the AMF for prior approval or submitted for clearance to the AMF. Consequently, the shares of our common stock may not be, directly or indirectly, offered or sold to the public in France and offers and sales of the shares of our common stock may only be made in France to qualified investors (investisseurs qualifiés) acting for their own, as defined in and in accordance with Articles L.411-2 and D.411-1 to D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code Monétaire et Financier. Neither this prospectus nor any other offering material may be released, issued or distributed to the public in France or used in connection with any offer for subscription or sale of the shares of our common stock to the public in France. The subsequent direct or indirect retransfer of the shares of our common stock to the public in France may only be made in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code Monétaire et Financier.

*Germany.* Each person who is in possession of this prospectus is aware of the fact that no German securities prospectus (wertpapierprospekt) within the meaning of the securities prospectus act (wertpapier-prospektgesetz), or the act, of the federal republic of Germany has been or will be published with respect to the shares of our common stock. In particular, each underwriter has represented that it has not engaged and has agreed that it will not engage in a public offering in the federal republic of Germany (öffentliches angebot) within the meaning of the act with respect to any of the shares of our common stock otherwise than in accordance with the act and all other applicable legal and regulatory requirements.

*Switzerland.* The shares common stock may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This document does not constitute a prospectus within the meaning of, and has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.



---

## Table of Contents

Neither this document nor any other offering or marketing material relating to the offering, the Company, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

*Netherlands.* The offering of the shares of our common stock is not a public offering in The Netherlands. The shares of our common stock may not be offered or sold to individuals or legal entities in The Netherlands unless (1) a prospectus relating to the offer is available to the public, which has been approved by the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten) or by the competent supervisory authority of another state that is a member of the European Union or party to the Agreement on the European Economic Area, as amended or (2) an exception or exemption applies to the offer pursuant to Article 5:3 of The Netherlands Financial Supervision Act (Wet op het financieel toezicht) or Article 53 paragraph 2 or 3 of the Exemption Regulation of the Financial Supervision Act, for instance due to the offer targeting exclusively “qualified investors” (gekwalificeerde beleggers) within the meaning of Article 1:1 of The Netherlands Financial Supervision Act.

*Japan.* The shares have not been and will not be registered under the Financial Instruments and Exchange Act. Accordingly, the shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

*Hong Kong.* The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to our common stock has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to our common stock which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

*Singapore.* This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

---

[Table of Contents](#)

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law;
- as specified in Section 276(7) of the SFA; or
- as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

We have not authorized and do not authorize the making of any offer of securities through any financial intermediary on our behalf, other than offers made by the underwriters and their respective affiliates, with a view to the final placement of the securities as contemplated in this document. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of shares on our behalf or on behalf of the underwriters.

## **LEGAL MATTERS**

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Fenwick & West LLP, San Francisco, California. Certain legal matters relating to the offering will be passed upon for the underwriters by Cooley LLP, San Francisco, California.

## **EXPERTS**

Ernst & Young LLP, independent registered public accounting firm, has audited our financial statements as of December 31, 2016 and December 31, 2017 and for each of the two years in the period ended December 31, 2017, as set forth in their report (which contains an explanatory paragraph describing conditions that raise substantial doubt about the Company's ability to continue as a going concern as described in Note 1 to the financial statements). We have included our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

## ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission, or SEC, a registration statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the shares of common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits filed therewith. For further information about us and the common stock offered hereby, reference is made to the registration statement and the exhibits filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and in each instance we refer you to the copy of such contract or other document filed as an exhibit to the registration statement.

We currently do not file periodic reports with the SEC. Upon the completion of this offering, we will be required to file periodic reports, proxy statements and other information with the SEC pursuant to the Securities Exchange Act of 1934, as amended. A copy of the registration statement and the exhibits filed therewith may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, NE, Washington, DC 20549, and copies of all or any part of the registration statement may be obtained from that office. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is [www.sec.gov](http://www.sec.gov).

We also maintain a website at [www.sutro.bio.com](http://www.sutro.bio.com). Upon completion of this offering, you may access these materials at our website free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

**SUTRO BIOPHARMA, INC.**

**Index to Financial Statements**

	<b>Page</b>
<b>Audited Financial Statements</b>	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
Financial Statements:	
<a href="#">Balance Sheets</a>	F-3
<a href="#">Statements of Operations</a>	F-4
<a href="#">Statements of Comprehensive Income (Loss)</a>	F-5
<a href="#">Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit</a>	F-6
<a href="#">Statements of Cash Flows</a>	F-7
<a href="#">Notes to Financial Statements</a>	F-8
<b>Unaudited Interim Condensed Financial Statements</b>	
<a href="#">Condensed Balance Sheets</a>	F-39
<a href="#">Condensed Statements of Operations</a>	F-40
<a href="#">Condensed Statements of Comprehensive Loss</a>	F-41
<a href="#">Condensed Statements of Cash Flows</a>	F-42
<a href="#">Notes to Unaudited Interim Condensed Financial Statements</a>	F-43

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of Sutro Biopharma, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Sutro Biopharma, Inc. (the Company), as of December 31, 2016 and 2017, the related statements of operations, comprehensive income (loss), redeemable convertible preferred stock and stockholders' deficit and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2016 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**The Company's Ability to Continue as a Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has a working capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2007.

Redwood City, California

June 1, 2018

**Sutro Biopharma, Inc.**  
**Balance Sheets**  
(in thousands, except share and per share amounts)

	<b>December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,593	\$ 22,020
Marketable securities	35,928	–
Accounts receivable (including amounts from related parties of \$10 and \$784 as of December 31, 2016 and 2017, respectively)	577	1,624
Prepaid expenses and other current assets	1,590	1,985
<b>Total current assets</b>	<b>49,688</b>	<b>25,629</b>
Property and equipment, net	18,690	13,997
Other long-term assets	624	1,128
Restricted cash	275	15
<b>Total assets</b>	<b>\$ 69,277</b>	<b>\$ 40,769</b>
<b>Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Deficit</b>		
Current liabilities:		
Accounts payable	\$ 3,394	\$ 2,902
Accrued compensation	3,189	3,639
Deferred revenue—current	43,576	10,709
Debt—current	–	14,634
Other current liabilities	22	72
<b>Total current liabilities</b>	<b>50,181</b>	<b>31,956</b>
Deferred revenue, non-current	5,858	13,159
Deferred rent	342	428
Redeemable convertible preferred stock warrant liability	1,193	1,708
Other noncurrent liabilities	99	14
<b>Total liabilities</b>	<b>57,673</b>	<b>47,265</b>
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock, \$0.001 par value—176,400,163 and 177,082,393 shares authorized as of December 31, 2016 and 2017, respectively; 173,750,421 shares issued and outstanding as of December 31, 2016 and 2017; aggregate liquidation preference of \$102,988 as of December 31, 2017	102,505	102,505
Stockholders' deficit:		
Common stock, \$0.001 par value—270,000,000 and 271,000,000 shares authorized as of December 31, 2016 and 2017, respectively; 16,405,932 and 16,897,022 shares issued and outstanding as of December 31, 2016 and 2017, respectively	16	17
Note receivable from stockholder	(207)	(208)
Additional paid-in-capital	4,630	6,201
Accumulated other comprehensive loss	(17)	–
Accumulated deficit	(95,323)	(115,011)
<b>Total stockholders' deficit</b>	<b>(90,901)</b>	<b>(109,001)</b>
<b>Total liabilities, redeemable convertible preferred stock, and stockholders' deficit</b>	<b>\$ 69,277</b>	<b>\$ 40,769</b>

*See accompanying notes to financial statements*

**Sutro Biopharma, Inc.**  
**Statements of Operations**  
**(in thousands, except share and per share amounts)**

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2017</u>
Collaboration revenue (including amounts from a related party of \$54,001 and \$44,606 during the years ended December 31, 2016 and 2017, respectively)	\$ 59,731	\$ 51,741
Operating expenses:		
Research and development	43,550	54,639
General and administrative	14,817	16,374
Total operating expenses	<u>58,367</u>	<u>71,013</u>
Income (loss) from operations	1,364	(19,272)
Interest income	251	273
Interest expense	-	(612)
Other income (expense), net	87	(77)
Net income (loss)	<u>\$ 1,702</u>	<u>\$ (19,688)</u>
Net income (loss) per share attributable to common stockholders, basic and diluted	<u>\$ -</u>	<u>\$ (1.21)</u>
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic and diluted	<u>14,804,949</u>	<u>16,265,874</u>
Pro forma net loss per share, basic and diluted (unaudited)		<u>\$</u>
Weighted-average shares used in computing pro forma net loss per share, basic and diluted (unaudited)		<u>=====</u>

*See accompanying notes to financial statements*



**Sutro Biopharma, Inc.**  
**Statements of Comprehensive Income (Loss)**  
**(in thousands)**

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2017</u>
Net income (loss)	\$ 1,702	\$ (19,688)
Other comprehensive income:		
Unrealized gain on available-for-sale securities	34	17
Comprehensive income (loss)	<u>\$ 1,736</u>	<u>\$ (19,671)</u>

*See accompanying notes to financial statements*

Sutro Biopharma, Inc.

Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit  
(in thousands, except share amounts)

	Convertible Preferred Stock		Common Stock		Note Receivable from Stockholder	Additional Paid-In-Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount					
<b>Balances at December 31, 2015</b>	173,750,421	\$ 102,505	15,114,384	\$ 14	\$ (200)	\$ 3,364	\$ (51)	\$ (97,025)	\$ (93,898)
Exercise of common stock options for cash	–	–	1,291,548	1	–	183	–	–	184
Stock-based compensation expense	–	–	–	–	–	968	–	–	968
Vesting of early exercised shares	–	–	–	1	–	115	–	–	116
Interest on note receivable from stockholder	–	–	–	–	(7)	–	–	–	(7)
Net unrealized gain on available-for-sale securities	–	–	–	–	–	–	34	–	34
Net income	–	–	–	–	–	–	–	1,702	1,702
<b>Balances at December 31, 2016</b>	173,750,421	102,505	16,405,932	16	(207)	4,630	(17)	(95,323)	(90,901)
Exercise of common stock options for cash	–	–	491,090	1	–	94	–	–	95
Stock-based compensation expense	–	–	–	–	–	1,391	–	–	1,391
Vesting of early exercised shares	–	–	–	–	–	86	–	–	86
Interest on note receivable from stockholder	–	–	–	–	(1)	–	–	–	(1)
Net unrealized gain on available-for-sale securities	–	–	–	–	–	–	17	–	17
Net loss	–	–	–	–	–	–	–	(19,688)	(19,688)
<b>Balances at December 31, 2017</b>	173,750,421	\$ 102,505	16,897,022	\$ 17	\$ (208)	\$ 6,201	\$ –	\$ (115,011)	\$ (109,001)

See accompanying notes to financial statements

**Sutro Biopharma, Inc.**  
**Statements of Cash Flows**  
(in thousands)

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>Operating activities</b>		
Net income (loss)	\$ 1,702	\$ (19,688)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	5,662	4,990
Amortization of premium on marketable securities	168	106
Stock-based compensation expense	968	1,391
Revaluation of redeemable convertible preferred stock warrant liability	(88)	186
Revaluation of SutroVax option liability	-	(30)
Accretion of debt discount	-	133
Interest on note receivable from stockholder	(7)	(1)
Loss on disposal of property and equipment	98	-
Impairment of long-lived assets	-	2,742
Changes in operating assets and liabilities:		
Accounts receivable	(171)	(1,047)
Prepaid expenses and other assets	(371)	(354)
Accounts payable	874	(473)
Accrued compensation	1,238	451
Other current liabilities	(18)	-
Deferred rent	(95)	86
Deferred revenue	(23,120)	(25,566)
Net cash used in operating activities	(13,160)	(37,074)
<b>Investing activities</b>		
Purchases of marketable securities	(52,304)	(14,220)
Maturities of marketable securities	57,773	34,850
Sales of marketable securities	8,500	15,208
Proceeds from exercise of options for SutroVax shares	-	80
Purchases of property and equipment	(4,394)	(3,316)
Proceeds from sale of property and equipment	16	-
Net cash provided by investing activities	9,591	32,602
<b>Financing activities</b>		
Proceeds from issuance of debt	-	15,000
Payment of debt issuance fees	-	(170)
Payment of deferred offering costs	-	(286)
Proceeds from issuances of common stock upon exercise of stock options	184	95
Net cash provided by financing activities	184	14,639
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,385)	10,167
Cash, cash equivalents and restricted cash at beginning of year	15,253	11,868
Cash, cash equivalents and restricted cash at end of year	<u>\$ 11,868</u>	<u>\$ 22,035</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	<u>\$ -</u>	<u>\$ 479</u>
<b>Supplemental Disclosures of Non-Cash Investing and Financing Information</b>		
Vesting of early exercised shares	<u>\$ 116</u>	<u>\$ 86</u>
Purchase of property and equipment included in accounts payable	<u>\$ 532</u>	<u>\$ 255</u>
Deferred initial public offering costs included in accounts payable	<u>\$ -</u>	<u>\$ 259</u>

*See accompanying notes to financial statements*

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

**1. Organization and Principal Activities**

***Description of Business***

Sutro Biopharma, Inc. (the "Company") is a clinical stage drug discovery, development and manufacturing company focused on leveraging its integrated cell-free protein synthesis platform, XpressCF, to create a broad variety of optimally designed, next-generation protein therapeutics for cancer and autoimmune disorders. The Company was incorporated on April 21, 2003, and was formerly known as Fundamental Applied Biology, Inc. The Company is headquartered in South San Francisco, California.

The Company operates in one business segment, the development of biopharmaceutical products.

***Going Concern***

The Company has incurred significant losses and has negative cash flows from operations. As of December 31, 2017, there was an accumulated deficit of \$115.0 million. Management expects to continue to incur additional substantial losses in the foreseeable future as a result of the Company's research and development activities.

As of December 31, 2017, the Company had unrestricted cash and cash equivalents of \$22.0 million, which is available to fund future operations. The Company will need to raise additional capital to support the completion of its research and development activities. The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding to continue to operationalize the Company's current technology and to advance the development of its product candidates.

The Company completed an equity financing and obtained \$31.6 million in gross proceeds from the sale of its Series E redeemable convertible preferred stock in May 2018 (see Note 14). The Company believes that its cash and cash equivalents as of December 31, 2017, plus the proceeds from the Series E financing will not be sufficient for the Company to continue as a going concern for at least one year from the issuance date of its financial statements. The Company believes that this raises substantial doubt about its ability to continue as a going concern. As a result, the Company will be required to raise additional capital. If sufficient funds on acceptable terms are not available when needed, the Company could be required to significantly reduce its operating expenses and delay, reduce the scope of, or eliminate one or more of its development programs. Failure to manage discretionary spending or raise additional financing, as needed, may adversely impact the Company's ability to achieve its intended business objectives. In August 2017, the Company entered into a loan and security agreement with Oxford Finance LLC and Silicon Valley Bank under which it borrowed \$15.0 million (the "August 2017 Loan") (see Note 7). The August 2017 Loan provides that an event of default will occur if, among other triggers, there occurs any circumstances that could reasonably be expected to result in a material adverse effect on the Company's business, operations or condition, or on its ability to perform its obligations under the loan. The Company has disclosed above that there is currently substantial doubt about its ability to continue as a going concern given its continuing operating losses and its current available capital resources, which could be deemed to be an event of default if such condition was considered to have a material adverse effect on the Company's business, operations or condition. As a result, the Company has classified the entire debt balance as a current liability given that a determination of such an event of default is outside of the Company's control. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Other than with respect to the aforementioned loan,

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

the financial statements do not reflect any adjustments relating to the recoverability and reclassifications of assets and liabilities that might be necessary if the Company is unable to continue as a going concern.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company bases its estimates on historical experience and market-specific or other relevant assumptions that it believes are reasonable under the circumstances. The amounts of assets and liabilities reported in the Company's balance sheets and the amount of expenses and income reported for each of the periods presented are affected by estimates and assumptions, which are used for, but are not limited to, determining research and development periods under multiple element arrangements, stock-based compensation expense, fair value of redeemable convertible preferred stock and warrant liabilities, fair value of common stock, income taxes and certain accrued liabilities. Actual results could differ from such estimates or assumptions.

***Unaudited Pro Forma Financial Information***

Pro forma basic and diluted net loss per share has been computed to give effect to the conversion of all outstanding redeemable convertible preferred stock into shares of common stock and the net exercise of certain redeemable convertible preferred stock warrants. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains or losses resulting from the remeasurement of the redeemable convertible preferred stock warrant liability. The unaudited pro forma net loss per share does not include the shares expected to be sold and related proceeds to be received from the completion of an initial public offering ("IPO"). The unaudited pro forma net loss per share for the year ended December 31, 2017 was computed using the weighted-average number of shares of common stock outstanding, including the pro forma effect of the conversion of all outstanding shares of redeemable convertible preferred stock into shares of common stock and the net exercise of certain redeemable convertible preferred stock warrants and common stock warrants, as if such conversion or net exercise had occurred at the beginning of the period, or their issuance dates if later.

***Cash, Cash Equivalents, Marketable Securities and Restricted Cash***

The Company considers all highly liquid investments with original maturities of 90 days or less from the date of purchase to be cash equivalents. Investments with original maturities of greater than 90 days from the date of purchase but less than one year from the balance sheet date are classified as current, while investments with maturities in one year or beyond one year from the balance sheet date are classified as long-term investments. Available-for-sale marketable securities are carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income. Realized gains and losses are included in interest income in the Company's Statement of Operations. There were no material realized gains or losses in the periods presented. The cost of securities sold is based on the specific-identification method.

The Company invests in commercial paper, corporate debt instruments and money market funds with high credit ratings. The Company has established guidelines regarding diversification of its

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

investments and their maturities, with the objectives of maintaining safety and liquidity while maximizing yield.

Under certain lease and credit agreements, the Company has pledged cash and cash equivalents as collateral. Restricted cash related to such agreements was \$275,000 and \$15,000 as of December 31, 2016 and 2017, respectively.

The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same amounts shown in the statements of cash flows.

	December 31,	
	2016	2017
	(in thousands)	
Cash and cash equivalents	\$ 11,593	\$ 22,020
Restricted cash	275	15
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 11,868</u>	<u>\$ 22,035</u>

**Concentrations of Credit Risk**

Cash and cash equivalents and marketable securities consist of financial instruments that potentially subject the Company to a concentration of credit risk, to the extent of the amounts recorded on the balance sheets. The Company minimizes the amount of credit exposure by investing cash that is not required for immediate operating needs in money market funds, government obligations and/or commercial paper with short maturities.

The Company regularly reviews the outstanding accounts receivable, including consideration of factors such as the age of the receivable balance. As of December 31, 2016 and 2017, there was no allowance for doubtful accounts deemed necessary. As of December 31, 2016 and 2017, the Company had an accounts receivable balance of \$577,000 and \$1.6 million, respectively, attributable to the Company's collaboration agreements.

**Deferred Offering Costs**

The Company has deferred offering costs consisting of legal, accounting and other fees and costs directly attributable to the Company's planned IPO. The deferred offering costs will be offset against the proceeds received upon the completion of the planned IPO. In the event the planned IPO is terminated, all of the deferred offering costs will be expensed within the Company's statements of operations. As of December 31, 2016, no amounts were deferred. As of December 31, 2017, \$545,000 of deferred offering costs were recorded within other long-term assets on the balance sheet.

**Property and Equipment, Net**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the respective assets, generally three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease. Maintenance and repairs are charged to expense as incurred and costs of improvement are capitalized.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

***Impairment of Long-Lived Assets***

The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when the estimated, undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

The Company did not recognize any impairment charges during the year ended December 31, 2016. During the year ended December 31, 2017, the Company recognized within research and development expenses in the statement of operations an impairment charge of \$2.7 million pertaining to manufacturing equipment that had been custom built for the Company, and failed to meet the acceptance criteria; therefore, the Company believes the carrying value may not be recoverable. As of December 31, 2016 and 2017, management believes that no revision to the remaining useful lives or write down of the remaining long-lived assets is required.

***Redeemable Convertible Preferred Stock Warrants***

The Company accounts for its redeemable convertible preferred stock warrants as a liability, and they are recorded at their estimated fair value, because the warrants may conditionally obligate the Company to transfer assets at some point in the future. At the end of each reporting period, changes in the estimated fair value during the period are recorded in other income (expense), net in the statement of operations. The Company will continue to adjust the liability for changes in estimated fair value until the earlier of the expiration of the warrants, exercise of the warrants, or conversion of the redeemable convertible preferred stock warrants into common stock warrants upon the completion of a liquidation event, including the completion of an IPO.

***Leases***

The Company enters into lease agreements for its laboratory and office facilities. These leases are classified as operating leases. Rent expense is recognized on a straight-line basis over the term of the lease. Incentives granted under the Company's facilities leases, including allowances to fund leasehold improvements and rent holidays, are recorded as a deferred rent liability and are recognized as reductions to rental expense on a straight-line basis over the remaining term of the lease.

***Revenue Recognition***

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

For multiple-element arrangements, each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting if both of the following criteria are met: (i) the delivered item or items has value to the customer on a stand-alone basis; and (ii) for an arrangement that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in management's control.

The Company recognizes revenue from milestone payments when: (i) the milestone event is substantive and its achievability has substantive uncertainty at the inception of the agreement, and (ii) the Company has completed its performance obligations related to the achievement of the

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

milestone. Milestone payments are considered substantive if all of the following conditions are met: the milestone payment (a) is commensurate with either the Company's performance subsequent to the inception of the arrangement to achieve the milestone or the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the Company's performance subsequent to the inception of the arrangement to achieve the milestone, (b) relates solely to past performance, and (c) is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Determining whether and when these revenue recognition criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of reported revenue. Changes in assumptions or judgments or changes to the elements in an arrangement could cause a material increase or decrease in the amount of revenue that is reported in a particular period.

Under certain collaborative arrangements, the Company is entitled to payments for certain research and development activities and for providing product and other related materials. The Company's policy is to account for such payments by its collaboration partners as collaboration revenue.

***Stock-Based Compensation***

The Company maintains a stock-based compensation plan as a long-term incentive for employees, consultants, and members of the Company's Board of Directors. The plan allows for the issuance of non-statutory and incentive stock options to employees and non-statutory stock options ("NSOs") to nonemployees.

Share-based payments are measured using fair-value-based measurements and recognized as compensation expense over the service period in which the awards are expected to vest. The Company's fair-value-based measurements of awards to employees and directors as of the grant date utilize the single-option award-valuation approach, and the Company uses the straight-line method for expense attribution. The fair-value-based measurements of options granted to nonemployees are remeasured at each period end until the options vest and are amortized to expense as earned. The valuation model used for calculating the estimated fair value of stock awards is the Black-Scholes option-pricing model. The Black-Scholes model requires the Company to make assumptions and judgments about the variables used in the calculations, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the expected volatility of the Company's common stock, the related risk-free interest rate and the expected dividend. The Company also estimates the expected forfeitures of unvested stock awards. Potential forfeitures of awards are estimated based on the Company's historical forfeiture experience. The estimate of forfeitures will be adjusted over the service period, to the extent that actual forfeitures differ, or are expected to differ, from prior estimates.

***Research and Development***

Research and development costs are expensed as incurred. Research and development expenses consist of costs incurred in performing research and development activities: salaries, employee benefits, laboratory supplies, outsourced research and development expenses, professional services and allocated facilities-related costs. Amounts incurred in connection with collaboration arrangements are also included as a research and development expense.



**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

Nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities are deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed.

For outsourced research and development expenses, such as professional fees payable to third parties for preclinical studies, clinical trials and research services, and other consulting costs, the Company estimates the expenses based on the services performed, pursuant to contracts with research institutions that conduct and manage preclinical studies, clinical trials and research services on its behalf. The Company estimates these expenses based on discussions with internal management personnel and external service providers as to the progress or stage of completion of services and the contracted fees to be paid for such services. If the actual timing of the performance of services or the level of effort varies from the original estimates, the Company will adjust the accrual accordingly. Payments made to third parties under these arrangements in advance of the performance of the related services by the third parties are recorded as prepaid expenses until the services are rendered.

**Income Taxes**

The Company provides for income taxes under the asset and liability method. Current income tax expense or benefit represents the amount of income taxes expected to be payable or refundable for the current year. Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards, and are measured using the enacted tax rates and laws that will be in effect when such items are expected to reverse. Deferred income tax assets are reduced, as necessary, by a valuation allowance when management determines it is more likely than not that some or all of the tax benefits will not be realized.

The Company accounts for uncertain tax positions in accordance with Accounting Standards Codification ("ASC") 740-10, *Accounting for Uncertainty in Income Taxes*. The Company assesses all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position's sustainability and is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

The Company includes any penalties and interest expense related to income taxes as a component of other income (expense), net and interest expense as necessary.

**Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or an exit price, in the principal or most advantageous market for that asset or liability in an orderly transaction between market participants on the measurement date, and established a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. The Company determined the fair

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

value of financial assets and liabilities using the fair value hierarchy that describes three levels of inputs that may be used to measure fair value, as follows:

Level 1—Quoted prices in active markets for identical assets and liabilities;

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of accounts receivable, prepaid expenses, accounts payable, accrued liabilities and accrued compensation and benefits approximate fair value due to the short-term nature of these items.

The fair value of the Company's outstanding loan (See Note 7) is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rate, which is a Level 2 input. The estimated fair value of the Company's outstanding loan approximates the carrying amount, as the loan bears a floating rate that approximates the market interest rate.

***Net Income (Loss) Per Share Attributable to Common Stockholders***

Basic and diluted net income per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. The Company considers its redeemable convertible preferred stock to be participating securities. The holders of the Company's redeemable convertible preferred stock are entitled to receive non-cumulative dividends, payable prior and in preference to any dividends on any shares of the Company's common stock. In the event a cash dividend is paid on common stock, the holders of redeemable convertible preferred stock are also entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis). The holders of the redeemable convertible preferred stock do not have a contractual obligation to share in losses. In accordance with the two-class method, earnings allocated to these participating securities and the related number of outstanding shares of the participating securities, which include contractual participation rights in undistributed earnings, have been excluded from the computation of basic and diluted net income per share attributable to common stockholders.

Basic net income (loss) per share attributable to common stockholders is calculated by dividing the net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, without consideration for potential dilutive common shares. Basic net loss per share is the same as diluted net loss per share as the inclusion of all potential dilutive common shares would have been anti-dilutive.

Shares of common stock subject to repurchase are excluded from the computation of weighted-average shares as the continued vesting of such shares is contingent upon the holders' continued service to the Company. For the computation of net income (loss) per share attributable to common stockholders for the years ended December 31, 2016 and 2017, 956,307 and 358,521 shares subject to repurchase, respectively, were excluded from the computation of net income (loss) per share.

***Recent Accounting Pronouncements***

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB"), or other standard setting bodies and adopted by the Company as of the

**Sutro Biopharma, Inc.**

**Notes to Financial Statements**

specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Company's financial statements upon adoption. Under the Jumpstart Our Business Startups Act of 2012, as amended (the "JOBS Act"), the Company meets the definition of an emerging growth company, and has elected the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

**Recently Adopted Accounting Pronouncements**

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09 (Topic 718), *Stock Compensation—Improvements to Employee Share-Based Payment Accounting*, which simplifies the accounting for share-based payment transactions, including the income tax consequences, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. For public business entities, ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. The Company early adopted this guidance effective January 1, 2017, and the adoption did not have a material impact on the Company's financial statements.

**New Accounting Pronouncements Not Yet Adopted**

In May 2014, the FASB issued ASU No. 2014-09 (Topic 606), *Revenue from Contracts with Customers*. In August 2015, the FASB issued ASU No. 2015-14 (Topic 606), *Revenue from Contracts with Customers: Deferral of the Effective Date*, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, became effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption is permitted. ASU 2014-09 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company will adopt the standard as of January 1, 2019 and is still in the process of evaluating the effect this guidance will have on revenue recognition for its collaboration and license agreements.

The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. generally accepted accounting pronouncements. All of the Company's revenue is currently generated from up-front payments, research and development services, and milestone and contingent payments under its collaboration arrangements. The Company is currently evaluating its collaboration agreements to determine the impact of adopting ASU 2014-09, inclusive of available transitional methods, on its financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01 (Topic 825), *Recognition and Measurement of Financial Assets and Financial Liabilities*, which will change how to recognize, measure, present and make disclosures about certain financial assets and financial liabilities. Under ASU 2016-01, if an entity designates a financial liability under the fair value option ("FVO") in accordance with ASC 825, the entity shall measure the financial liability at fair value with qualifying changes in fair value recognized in

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

net income. The entity shall present separately in other comprehensive income the portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk. For public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities can early adopt the provision related to financial liabilities measured using the FVO in ASC 825 for financial statements of annual or interim periods that have not yet been issued or made available for issuance. The Company does not expect the adoption of this amendment will have a material impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02 (Topic 842), *Leases*, which requires an entity to recognize assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 is effective for public entities for interim and annual periods beginning after December 15, 2018. For nonpublic entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating how and to what extent ASU 2016-02 will affect the Company's financial position, results of operations, cash flows and related disclosures.

In August 2016, the FASB issued ASU 2016-15 (Topic 230), *Classification of Certain Cash Receipts and Cash Payments*. The new guidance clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. ASU 2016-15 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is in the process of assessing the impact, if any, of this ASU on its financial statements. The Company does not expect that the adoption of this amendment will have a material impact on its financial statements.

**3. Fair Value Measurements**

The following table sets forth the fair value of the Company's financial assets and liabilities measured on a recurring basis by level within the fair value hierarchy:

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
<b>Assets:</b>				
Money market funds	\$ 10,516	\$ 10,516	\$ –	\$ –
Commercial paper	11,243	–	11,243	–
Corporate debt securities	14,353	–	14,353	–
Asset-backed securities	7,830	–	7,830	–
U.S. government agency securities	2,502	–	2,502	–
<b>Total</b>	<b><u>\$ 46,444</u></b>	<b><u>\$ 10,516</u></b>	<b><u>\$ 35,928</u></b>	<b><u>\$ –</u></b>
<b>Liabilities:</b>				
Redeemable convertible preferred stock warrant liability	\$ 1,193	\$ –	\$ –	\$ 1,193
<b>Total</b>	<b><u>\$ 1,193</u></b>	<b><u>\$ –</u></b>	<b><u>\$ –</u></b>	<b><u>\$ 1,193</u></b>

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
<b>Assets:</b>				
Money market funds	\$ 6,578	\$ 6,578	\$ –	\$ –
Commercial paper	7,689	–	7,689	–
Corporate debt securities	800	–	800	–
U.S. government agency securities	3,893	–	3,893	–
<b>Total</b>	<b>\$ 18,960</b>	<b>\$ 6,578</b>	<b>\$ 12,382</b>	<b>\$ –</b>
<b>Liabilities:</b>				
Redeemable convertible preferred stock warrant liability	\$ 1,708	\$ –	\$ –	\$ 1,708
<b>Total</b>	<b>\$ 1,708</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 1,708</b>

Where applicable, the Company uses quoted market prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments, which are composed of money market funds.

If quoted prices in active markets for identical assets are not available, then the Company uses quoted prices for similar assets or inputs other than quoted prices that are observable, either directly or indirectly. These investments are included in Level 2 and consist of commercial paper, corporate debt securities, asset-backed securities and U.S. government agency securities. These assets are valued using market prices when available, adjusting for accretion of the purchase price to face value at maturity.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3 within the valuation hierarchy. Level 3 liabilities that are measured at estimated fair value on a recurring basis consist of the redeemable convertible preferred stock warrant liability. Refer to Note 10 for the valuation techniques used to measure fair value and a description of the inputs and the information used to develop the inputs to the valuation models. Generally, increases or decreases in the fair value of the underlying redeemable convertible preferred stock would result in a directionally similar impact in the fair value measurement of the associated warrant liability. There were no transfers within the hierarchy during the years ended December 31, 2016 and 2017.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

The following table sets forth a summary of the changes in the estimated fair value of the Company's redeemable convertible preferred stock warrant liability:

	<b>Redeemable Convertible Preferred Stock Warrant Liability (in thousands)</b>
Balance as of December 31, 2015	\$ 1,281
Changes in estimated fair value of warrant liability included in other income (expense), net	(88)
Balance as of December 31, 2016	1,193
Estimated fair value of warrants issued	329
Changes in estimated fair value of warrant liability included in other income (expense), net	186
Balance as of December 31, 2017	<u>\$ 1,708</u>

**4. Cash Equivalents and Available-for-Sale Marketable Securities**

Cash equivalents and available-for-sale marketable securities consisted of the following:

	<b>December 31, 2016</b>			<b>Fair Value</b>
	<b>Amortized Cost Basis</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	(in thousands)			
Money market funds	\$ 10,516	\$ —	\$ —	\$ 10,516
Commercial paper	11,243	—	—	11,243
Corporate debt securities	14,368	—	(15)	14,353
Asset-backed securities	7,830	1	(1)	7,830
U.S. government agencies	2,504	—	(2)	2,502
Total	46,461	1	(18)	46,444
Less amounts classified as cash equivalents	(10,516)	—	—	(10,516)
Total marketable securities	<u>\$ 35,945</u>	<u>\$ 1</u>	<u>\$ (18)</u>	<u>\$ 35,928</u>

	<b>December 31, 2017</b>			<b>Fair Value</b>
	<b>Amortized Cost Basis</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	(in thousands)			
Money market funds	\$ 6,578	\$ —	\$ —	\$ 6,578
Commercial paper	7,689	—	—	7,689
Corporate debt securities	800	—	—	800
U.S. government agencies	3,893	—	—	3,893
Total	18,960	—	—	18,960
Less amounts classified as cash equivalents	(18,960)	—	—	(18,960)
Total marketable securities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

For the years ended December 31, 2016 and 2017, the Company recognized no material realized gains or losses on available-for-sale marketable securities.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

**5. Collaboration and License Agreements**

The Company has recognized revenue from its collaboration and license agreements as follows:

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>(in thousands)</b>	
<b>Celgene Corporation ("Celgene"):</b>		
Amortization of up-front payment	\$ 27,730	\$ 16,694
Research and development services	–	660
Milestones and contingent payments	<u>26,271</u>	<u>27,252</u>
Total	54,001	44,606
<b>Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name "EMD Serono"):</b>		
Amortization of up-front payment	4,120	4,120
Research and development services	<u>1,610</u>	<u>3,015</u>
Total	5,730	7,135
Total collaboration revenue	<u>\$ 59,731</u>	<u>\$ 51,741</u>

**2014 Celgene Agreement**

In September 2014, the Company signed a Collaboration and License Agreement with Celgene (the "2014 Celgene Agreement") to discover and develop bispecific antibodies and/or antibody-drug conjugates ("ADCs"), focused primarily on the field of immuno-oncology, using the Company's proprietary integrated cell-free protein synthesis platform, XpressCF.

Upon signing the 2014 Celgene Agreement, the Company received an up-front, nonrefundable payment totaling \$83.1 million. Celgene had the option to extend the collaboration beyond the initial three-year research term in exchange for an additional payment. The Company identified multiple deliverables under the 2014 Celgene Agreement, which included access to certain intellectual property rights, performance of research and development services, and joint steering committee participation. The Company considered the provisions of the multiple-element arrangement guidance in determining whether access to the intellectual property rights under the arrangement had stand-alone value. Based on the Company's expertise in applying its proprietary technology, it concluded that there was no stand-alone value of the intellectual property rights accessed by Celgene. Consequently, the Company determined that the identified deliverables comprise a single unit of accounting, and the up-front payment was deferred and recognized over the relevant estimated period during which the Company has significant obligations to perform research and development services and participate in joint steering committee activities in the collaboration. Consequently, the Company was recognizing revenues from the up-front payment ratably over an approximate three-year period starting in September 2014.

In March 2015, the Company received a \$15.0 million contingent payment ("March 2015 payment") from Celgene under the 2014 Celgene Agreement that provided Celgene a right to access certain of the Company's technology for use in conjunction with certain Celgene intellectual property. In June 2016, the Company received a \$25.0 million milestone ("June 2016 payment") upon completion of certain preclinical activities. The March 2015 and June 2016 payments are being recognized as revenue over the remaining portion of the estimated period of the research term. Additionally, in June 2016, the Company earned a \$10.0 million substantive milestone for certain manufacturing accomplishments. The entire \$10.0 million amount was recognized as revenue when earned, as the

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

Company had completed its performance obligations related to the achievement of the substantive milestone. In September 2017, the Company earned a \$10.0 million milestone for certain manufacturing accomplishments, which payment was received from Celgene in October 2017, as part of the Amended and Restated Collaboration and License Agreement with Celgene (the "2017 Celgene Agreement"). The entire \$10.0 million amount was recognized as revenue when earned, as the Company had completed its performance obligations related to the achievement of the substantive milestone. As of December 31, 2016 and 2017, there was \$39.5 million and \$7.1 million, respectively, of deferred revenue related to payments received by the Company under the 2014 Celgene Agreement.

Beginning two years after the effective date of the Option Support Agreement and ending upon the expiration of the research term, Celgene, prior to the August 2017 Amended and Restated Collaboration and License Agreement (See 2017 Celgene Agreement), had the exclusive option to acquire the Company, including rights to all programs owned by the Company at the time, at a value based on a pre-specified valuation procedure. Related to Celgene's exclusive option, the Company was subject to operating covenants that prohibited certain actions by the Company without Celgene's prior written consent. The option was terminated in August 2017.

**2017 Celgene Agreement**

In August 2017, the Company entered into the 2017 Celgene Agreement to refocus its 2014 Celgene Agreement on four programs that are advancing throughout preclinical development, including an ADC program targeting B cell maturation antigen.

Upon signing of the 2017 Celgene Agreement, the Company received an option fee payment of \$12.5 million in August 2017 and is eligible to receive a second option fee payment of \$12.5 million following the first investigational new drug ("IND") clearance, if any, for one of the four programs, if Celgene desires to maintain its option to acquire the U.S. rights to develop and commercialize a second collaboration program to reach IND status. If Celgene exercises its option to acquire from the Company U.S. rights to a second collaboration program, it will make an option exercise fee payment to the Company, the amount of which depends on which program reaches IND status. The Company determined that the initial \$12.5 million payment should be deferred and recognized over the entire potential period during which Celgene has an option to acquire worldwide rights to a second collaboration program. Consequently, the Company is recognizing revenue from such payment ratably over an approximate three-year period starting in August 2017 and ending in September 2020.

The Company evaluated the terms of the 2017 Celgene Agreement, relative to the 2014 Celgene Agreement, and determined the 2017 Celgene Agreement to be a material modification to the 2014 Celgene Agreement for financial reporting purposes. As a result, the Company determined that the remaining deferred revenue balance of \$8.2 million as of the date of entering into the 2017 Celgene Agreement, related to Celgene payments to the Company under the 2014 Celgene Agreement, will also be recognized ratably over an approximate three-year period starting in August 2017 and ending in September 2020. The Company has received and will be eligible to receive financial support for research and development services assigned to the Company by Celgene, based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate, which will be recognized as revenue as the related reimbursable activities approved by Celgene and the Company are performed by the Company.

Under the terms of the 2017 Celgene Agreement, the Company is entitled to earn development and regulatory contingent payments for each of the four programs under the collaboration, and



**Sutro Biopharma, Inc.**

**Notes to Financial Statements**

royalties on sales of any commercial products that may result from the 2017 Celgene Agreement. As of December 31, 2017, the Company is eligible to receive a potential future payment for manufacturing activities of \$10.0 million, which is considered to be a substantive milestone for which the related payment will be recognized as revenue upon achievement. In addition, for licensed products for which Celgene holds worldwide rights, the Company is eligible to receive aggregate milestone and option fee payments of up to \$295.0 million for certain licensed products and up to \$393.7 million for certain other licensed products under the collaboration, if approved in multiple indications, and, depending on the licensed product, tiered royalties ranging from single digits to low teen percentages on worldwide sales of any commercial products that may result from the 2017 Celgene Agreement. Additionally, for licensed products for which Celgene holds ex-U.S. rights, the Company will also be eligible to receive pre-commercial contingent payments and tiered royalties ranging from mid to high single digit percentages. The contingent payments under the 2017 Celgene Agreement are not considered to be substantive milestones because the receipt of such payments is based solely on the performance of Celgene.

As of December 31, 2017, there was \$10.9 million of deferred revenue related to a payment received by the Company under the 2017 Celgene Agreement.

As of December 31, 2017, the Company had a \$750,000 receivable from Celgene related to the 2017 Celgene Agreement, which is included in accounts receivable on the balance sheet.

In addition, the Company granted Celgene the right to purchase shares of Company's stock in certain future financings by the Company. In conjunction with this revision, the option for Celgene to acquire the Company under the 2014 Celgene Agreement was terminated along with restrictions from entering additional collaborations or accessing the public financial markets.

Celgene may terminate the 2017 Celgene Agreement at any time with 120 days' prior written notice. Either the Company or Celgene has the right to terminate the 2017 Celgene Agreement based on the other party's uncured material breach, challenge of the validity and enforceability of intellectual property, or bankruptcy.

***EMD Serono Agreement***

The Company signed a Collaboration Agreement and a License Agreement with EMD Serono in May 2014 and September 2014, respectively, which were entered into in contemplation of each other and therefore treated as a single agreement for accounting purposes. The Collaboration Agreement was terminated upon execution of the License Agreement (the "MDA Agreement"), which agreement is to develop ADCs for multiple cancer targets.

Upon signing the Collaboration Agreement, the Company received an up-front, nonrefundable, non-creditable payment totaling \$10.0 million. Upon signing the MDA Agreement, the Company received an additional up-front, nonrefundable payment totaling \$10.0 million and will receive financial support for research and development services to be provided by the Company, based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate.

The Company identified multiple deliverables under the MDA Agreement, which include access to certain intellectual property rights, performance of research and development services, and joint project team participation. The Company considered the provisions of the multiple-element arrangement guidance in determining whether access to the intellectual property rights under the

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

arrangement has stand-alone value. Based on the Company's expertise in applying its proprietary technology, it concluded that there is no stand-alone value of the intellectual property rights accessed by EMD Serono. Consequently, the Company determined that the identified deliverables comprise a single unit of accounting, and the up-front cash payments will be deferred and recognized over the relevant estimated period during which the Company has significant obligations to perform research and development services and participate in joint project team activities for EMD Serono. Consequently, the Company is recognizing revenues from the up-front payments ratably over an estimated five-year period starting in June 2014. Revenue for research and development services under the MDA Agreement will be recognized as revenue as the related reimbursable activities approved by EMD Serono and the Company are performed by the Company.

The Company is eligible to receive up to \$52.5 million for each product developed under the MDA Agreement, primarily from pre-commercial contingent payments. In addition, the Company is eligible to receive tiered royalties ranging from low to mid single digit percentages, along with certain additional one-time royalties, on worldwide sales of any commercial products that may result from the MDA Agreement. The MDA Agreement term expires on a product-by-product and country-by-country basis. Upon expiration, EMD Serono will have a fully paid-up, royalty-free, perpetual, and irrevocable non-exclusive license, with the right to grant sublicenses, under certain Company intellectual property rights. As of December 31, 2016 and 2017, there was \$10.0 million and \$5.9 million, respectively, of deferred revenue related to payments received by the Company under the MDA Agreement.

EMD Serono may terminate the MDA Agreement at any time with 90 days' prior written notice or upon the inability of the Company to provide EMD Serono access to a specified number of cancer drug targets. Either the Company or EMD Serono has the right to terminate the MDA Agreement based on the other party's uncured material breach or bankruptcy.

#### **6. Property and Equipment, Net**

Property and equipment, net, consists of the following:

	<b>December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>(in thousands)</b>	
Computer equipment and software	\$ 1,298	\$ 1,372
Furniture and office equipment	487	492
Laboratory equipment	21,657	21,375
Leasehold improvements	<u>15,648</u>	<u>15,772</u>
Total	39,090	39,011
Less accumulated depreciation and amortization	<u>(20,400)</u>	<u>(25,014)</u>
Total property and equipment, net	<u>\$ 18,690</u>	<u>\$ 13,997</u>

#### **7. Loan and Security Agreement**

In August 2017, the Company entered into a loan and security agreement with Oxford Finance LLC ("Oxford") and Silicon Valley Bank ("SVB") under which it borrowed \$15.0 million (the "August 2017 Loan"). The loan is due in 30 monthly installments from March 2019 through its repayment in August 2021, with interest-only monthly payments until March 2019. If certain qualified funding events occur, the loan will be due in 24 monthly installments from September 2019 through its repayment in August 2021, with interest-only payments until September 2019.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

The August 2017 Loan is secured by all assets of the Company, excluding intellectual property and certain other assets. The August 2017 Loan contains customary affirmative and restrictive covenants, including with respect to fundamental transactions, the incurrence of additional indebtedness, grant liens, pay any dividend or make any distributions to the Company's holders, make investments, merge or consolidate with any other person, or engage in transactions with its affiliates, but does not include any financial covenants. The loan agreement provides that an event of default will occur if, among other triggers, there occurs any circumstances that could reasonably be expected to result in a material adverse effect on the Company's business, operations or condition, or on its ability to perform its obligations under the loan. The Company has disclosed in Note 1 that there is currently substantial doubt about its ability to continue as a going concern given its continuing operating losses and its current available capital resources, which could be deemed to be an event of default if such condition was considered to have a material adverse effect on the Company's business, operations or condition. As a result, the Company has classified the entire debt balance as a current liability given that a determination of such an event of default is outside of the Company's control. The loan agreement also includes customary representations and warranties, other events of default and termination provisions.

The interest charges on the loan will be based on a floating rate that equals the greater of 7.39% or the sum of the 30-day U.S. Dollar London Interbank Offered Rate ("LIBOR") plus 6.40%. In addition, the Company will make a final payment equal to 3.83% of the original principal amount of the loan, or \$574,500, which will be accrued over the term of the loan using the effective-interest method. During the year ended December 31, 2017, the Company recorded interest expense related to this loan of \$611,000. In connection with the August 2017 Loan, the Company issued to Oxford and SVB a warrant to purchase 454,820 shares and 227,410 shares, respectively, of Series D-2 redeemable convertible preferred stock at an exercise price of \$0.6596 per share (the "2017 Warrant"). If there is a subsequent convertible preferred stock or other senior equity securities financing with a per share price less than the Series D-2 redeemable convertible preferred per share price, then the warrant shall instead be to purchase such class of shares, based on the per share price of such (see Note 14). The warrants were exercisable from the date of issuance and have a 10-year term. The estimated fair value upon issuance of the 2017 Warrant based on Series D-2 convertible preferred stock was \$329,000, which was recorded as a redeemable convertible preferred stock warrant liability. The fair value of the warrant at the date of issuance was determined using an Option Pricing Method and was recorded as a redeemable convertible preferred stock warrant liability with an offset to debt discount on the associated borrowings on the Company's balance sheet. The debt discount is being amortized to interest expense over the repayment period of the loan using the effective-interest method. As noted above, the Company has classified the entire debt balance as a current liability on its balance sheet as of December 31, 2017. As of December 31, 2017, the Company's scheduled future principal payments for the loan are as follows:

	<u>Amount</u> <u>(in thousands)</u>
Year ending December 31, 2018	\$ —
Year ending December 31, 2019	5,000
Year ending December 31, 2020	6,000
Year ending December 31, 2021	4,000
Total future maturities	15,000
Less unamortized debt discount as of December 31, 2017	(366)
Ending debt balance as of December 31, 2017	<u>\$ 14,634</u>

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

**8. Commitments and Contingencies****Operating Lease**

The Company leases its South San Francisco facility under an operating lease. The landlord provided the Company with an Extended Term Tenant Work Allowance of \$919,000 related to tenant improvements under the lease amendment entered in May 2012. The allowance was repaid through November 2016, in the form of an increased base rent amount. In May 2016, the Company exercised an option to extend the lease term of its South San Francisco facility, with fixed rental payments from December 2016 through November 2021. Under the amended lease agreement, the Company has an option to extend the lease term through November 2026. Additionally, the landlord provided the Company with a tenant improvement allowance of \$245,000. If the Company elects to access the tenant improvement allowance, the related amount will be repaid through November 2021, in the form of an increased monthly base rent amount. As of December 31, 2017, the Company had not accessed the tenant improvement allowance.

In May 2011, the Company entered into a lease agreement for a facility in San Carlos, California, which in August 2012 was amended to include an adjoining space in the same building, with fixed rental payments through July 31, 2016. In December 2014, the lease term was extended through July 2021. Under the lease agreement, the Company has two three-year options to extend the lease term, potentially through July 2027.

In August 2013, the Company entered into an agreement to sublease a second facility in South San Francisco, California, with fixed rental payments through March 2017. In May 2016, the Company entered into an agreement for a lease on the second facility in South San Francisco, with fixed rental payments from May 2017 through November 2021, following the end of the sublease term for the same facility. Under the lease agreement, the Company has an option to extend the lease term through November 2026.

In March 2015, the Company entered into an agreement to lease a second facility in San Carlos, California, with fixed rental payments through June 2021. Under the lease agreement, the Company has two three-year options to extend the lease term, potentially through June 2027.

As of December 31, 2017, the Company's future minimum payments under the noncancelable operating leases for the facilities are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
	<u>(in thousands)</u>
2018	\$ 3,540
2019	3,655
2020	3,771
2021	3,195
Total future minimum lease payments	<u>\$ 14,161</u>

Rent expense was \$2.2 million and \$3.2 million for the years ended December 31, 2016 and 2017, respectively.

**Indemnification**

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to vendors, lessors, business partners, board members, officers, and other parties with

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company, negligence or willful misconduct of the Company, violations of law by the Company, or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. No demands have been made upon the Company to provide indemnification under such agreements, and thus, there are no claims that the Company is aware of that could have a material effect on the Company's balance sheets, statements of operations, or statements of cash flows. The Company currently has directors' and officers' insurance.

**9. Related-Party Transactions**

Related party transactions with Celgene, which owned 15.4% of the Company's outstanding equity interest as of December 31, 2016 and 2017, are described in Note 5.

Three directors of the Company are performing consulting services for the Company. Subsequent to his appointment to the Company's Board of Directors, the Company paid \$60,000 to one of the directors in each of the years ended December 31, 2016 and 2017. Additionally, such director was granted options to purchase 356,000 shares of the Company's common stock from 2009 to 2015, at the then-current fair values of the common stock ranging from \$0.12 to \$0.33 per share, related to his consulting services, which vest ratably over four years. As of December 31, 2017, 26,346 shares of these options were unvested. Also, the Company paid a transaction advisory fee of \$700,000 and \$450,000 during the years ended December 31, 2016 and 2017, respectively, related to the Celgene agreements to a firm, of which such director is a managing executive. Additional payments, based on a single digit percentage of any future payments, will be made to such transaction advisory firm upon receipt of future payments under the 2017 Celgene Agreement (see Note 5).

The Company paid \$30,000 to the second director performing consulting services for the Company in each of the years ended December 31, 2016 and 2017. Additionally, such director was granted an option to purchase 118,667 shares of the Company's common stock in September 2015 at the then-current fair value of the common stock, related to his consulting services, which vests ratably over four years.

The Company paid \$25,000 to the third director performing consulting services for the Company in the year ended December 31, 2017.

On August 30, 2010, the Company received a promissory note with recourse from its chief executive officer, which was used to purchase common stock. The principal amount of the note was approximately \$200,000, which accrues interest at 0.53%, compounding semiannually. The note can be prepaid without penalty and is due on August 30, 2019. The note and related interest receivable has been recorded as a component of stockholders' deficit. As of December 31, 2016 and 2017, the outstanding balance is approximately \$207,000 and \$208,000, respectively.

***Investment in SutroVax, Inc. ("SutroVax")***

In December 2013, the Company and Johnson & Johnson Innovation, through the Johnson & Johnson Development Corporation, provided initial co-funding for a new company, SutroVax. SutroVax leverages the Company's proprietary integrated cell-free protein synthesis platform, XpressCF, to develop novel vaccines for a broad range of disease targets. The Company had a \$10,000 and \$34,000 receivable due from SutroVax as of December 31, 2016 and 2017, respectively, which was included in accounts receivable on the balance sheet.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

In December 2013, the Company purchased 3,000,000 shares of common stock of SutroVax at a purchase price of \$0.001 per share for an aggregate purchase price of \$3,000. The investment was initially accounted for under the equity method and the investment was reduced to zero as its share of losses exceeded the investment balance. The Company provided initial funding for SutroVax of \$250,000, with an additional investment in August 2014 of \$250,000, which were both in exchange for a convertible promissory note. In 2015 and 2016, SutroVax completed its \$22.0 million Series A preferred stock financings, and at such time the convertible promissory notes were repaid with interest and cancelled. As of December 31, 2016, the Company held an 18.6% common stock ownership interest in SutroVax on a fully-diluted basis, which was recorded at a value of \$0 and was accounted for under the cost method.

In 2017, SutroVax completed additional preferred stock financings, in which the Company did not participate. As of December 31, 2017, the Company held a 7.8% common stock ownership interest in SutroVax on a fully-diluted basis, with a carrying value of \$0.

SutroVax qualifies as a variable interest entity. However, the Company maintains only shared power to direct the activities that most significantly impact the performance of SutroVax. Therefore, the Company is not considered the primary beneficiary and consolidation is not required.

**10. Redeemable Convertible Preferred Stock and Stockholders' Deficit**

**Redeemable Convertible Preferred Stock**

Redeemable convertible preferred stock, \$0.001 par value, as of December 31, 2016 and 2017, consisted of:

	Shares Authorized	Shares Issued and Outstanding	Original Issue Price Per Share	Carrying Value	Liquidation Preference
	(in thousands, except for share and per share amounts)				
Series A	3,503,692	3,503,692	\$ 0.5900	\$ 1,992	\$ 2,067
Series B	24,515,966	24,345,936	0.8822	19,865	21,478
Series C	78,582,049	76,102,337	0.4797	38,035	36,506
Series C-2	8,338,892	8,338,892	0.5996	4,845	5,000
Series D	43,362,233	43,362,233	0.5996	25,900	26,000
Series D-2	18,097,331	18,097,331	0.6596	11,868	11,937
Balance at December 31, 2016	<u>176,400,163</u>	<u>173,750,421</u>		<u>\$ 102,505</u>	<u>\$ 102,988</u>

	Shares Authorized	Shares Issued and Outstanding	Original Issue Price Per Share	Carrying Value	Liquidation Preference
	(in thousands, except for share and per share amounts)				
Series A	3,503,692	3,503,692	\$ 0.5900	\$ 1,992	\$ 2,067
Series B	24,515,966	24,345,936	0.8822	19,865	21,478
Series C	78,582,049	76,102,337	0.4797	38,035	36,506
Series C-2	8,338,892	8,338,892	0.5996	4,845	5,000
Series D	43,362,233	43,362,233	0.5996	25,900	26,000
Series D-2	18,779,561	18,097,331	0.6596	11,868	11,937
Balance at December 31, 2017	<u>177,082,393</u>	<u>173,750,421</u>		<u>\$ 102,505</u>	<u>\$ 102,988</u>

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

The significant rights, preferences and privileges of the redeemable convertible preferred stock are as follows:

*Redemption*

At the election of certain major investors, the Company will redeem all outstanding shares of preferred stock in three equal annual installments commencing September 26, 2019, by paying in cash an amount per share equal to the original issuance prices of \$0.59 per share of Series A redeemable convertible preferred stock, \$0.8822 per share of Series B redeemable convertible preferred stock, \$0.4797 per share of Series C redeemable convertible preferred stock, \$0.5996 per share of Series C-2 redeemable convertible preferred stock, \$0.5996 per share of Series D redeemable convertible preferred stock, and \$0.6596 per share of Series D-2 redeemable convertible preferred stock, plus 8% of the applicable original issuance prices per annum calculated from the original issuance date of each share of preferred stock.

Additionally, all shares of preferred stock are redeemable in the event of a change in control or sale of substantially all of the assets of the Company. As certain redemption events are outside the control of the Company, all preferred stock amounts have been presented outside of stockholders' deficit.

The carrying value of the redeemable convertible preferred stock has not been accreted up to its redemption value as no redemption events are considered probable as of December 31, 2017.

*Dividends*

The holders of preferred stock are entitled to receive, when and as declared by the Board of Directors, dividends at the per annum rate of \$0.0472 per share of Series A redeemable convertible preferred stock, \$0.07056 per share of Series B redeemable convertible preferred stock, \$0.03838 per share of Series C redeemable convertible preferred stock, \$0.048 per share of Series C-2 redeemable convertible preferred stock, \$0.048 per share of Series D redeemable convertible preferred stock and \$0.0528 per share of Series D-2 redeemable convertible preferred stock, prior and in preference to any declaration or payment of a dividend to the common stockholders. Such dividends are not cumulative, and no right to such dividends shall accrue to holders of the preferred stock unless declared by the Board of Directors. Payment of any dividends to the holders of preferred stock shall be on a pro rata, pari passu basis in proportion to the dividend rates set forth above for each series of preferred stock. Following payment of these dividends to the preferred stockholders, any additional dividends will be payable to the holders of the Company's common and preferred stock on an as-if-converted-to-common-stock basis. No dividends have been declared to date.

*Liquidation*

In the event of any liquidation, dissolution, or winding up of the Company, either voluntary or involuntary, the holders of the preferred stock shall be entitled to receive pro rata, prior and in preference to any distribution to the holders of the common stock, an amount equal to the original issuance prices of each series (in each case, as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events) and all declared but unpaid dividends, if any.

After giving effect to the liquidation preferences noted above, all of the remaining assets of the Company shall be distributed to the holders of preferred stock and common stock pro rata based on the number of shares of common stock held by each such holder, treating, for this purpose, all such securities as if they had been converted to common stock immediately prior to the liquidation event.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

However, if the aggregate amount that the holders of preferred stock are entitled to receive exceeds two times the applicable original issuance prices per share for such series of preferred stock plus any dividends declared but unpaid thereon (the "Maximum Participation Amount"), each holder of preferred stock shall be entitled to receive upon such liquidation the greater of (i) the Maximum Participation Amount and (ii) the amount such holder would have received if all shares of such series of preferred stock had been converted into common stock immediately prior to the liquidation event.

Unless certain major investors elect otherwise, any of the following events shall be treated as a liquidation: (i) any consolidation, merger, acquisition, or any other corporate reorganization in which the stockholders of the Company immediately prior to such event own less than 50% of the voting power of the surviving or successor entity or its parent immediately after such event; (ii) any transaction or series of related transactions in which in excess of 50% of the Company's voting power is transferred; or (iii) any sale, lease, transfer, exclusive license, or other disposition of all or substantially all of the assets of the Company.

*Voting*

Each share of redeemable convertible preferred stock is entitled to voting rights equivalent to the number of shares of common stock into which each share can be converted.

The holders of Series C redeemable convertible preferred stock are entitled to elect two directors of the Company, and the holders of Series A redeemable convertible preferred stock and Series B redeemable convertible preferred stock are each entitled to elect one director of the Company. Additionally, holders of common stock are entitled to elect one director of the Company, and all stockholders can elect the balance of the total number of directors of the Company.

*Conversion*

The conversion price as of December 31, 2017 of each series of redeemable convertible preferred stock listed below is subject to adjustment upon certain dilutive events, including in the event the Company issues certain additional equity securities at a purchase price less than the current conversion price (see Note 14).

Each share of Series D-2 redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.6596 by the Series D-2 redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series D-2 redeemable convertible preferred stock conversion price as of December 31, 2017 is \$0.6596 per share of common stock. The Series D-2 redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events.

Each share of Series D redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.5996 by the Series D redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series D redeemable convertible preferred stock conversion price as of December 31, 2017 is \$0.5996 per share of common stock. The Series D redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events.



**Sutro Biopharma, Inc.**

**Notes to Financial Statements**

Each share of Series C-2 redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.5996 by the Series C-2 redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series C-2 redeemable convertible preferred stock conversion price as of December 31, 2017 is \$0.5996 per share of common stock. The Series C-2 redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events.

Each share of Series C redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.4797 by the Series C redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series C redeemable convertible preferred stock conversion price as of December 31, 2017 is \$0.4797 per share of common stock. The Series C redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events.

Each share of Series B redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.8822 by the Series B redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series B redeemable convertible preferred stock conversion price as of December 31, 2017 is \$0.6283 per share of common stock. The Series B redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events.

Each share of Series A redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.59 by the Series A redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series A redeemable convertible preferred stock conversion price as of December 31, 2017 is \$0.5227 per share of common stock. The Series A redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events.

Each share of redeemable convertible preferred stock shall automatically be converted into shares of common stock at the then-effective rate applicable to voluntary conversion as described above, upon either (i) the completion of an underwritten public offering at a price of not less than \$1.7988 per share (as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events) that results in at least \$50.0 million in net cash proceeds; or (ii) the written consent of certain major investors.

***Warrants***

During the period from 2008 to 2012, the Company issued various warrants for the purchase of redeemable convertible preferred stock in connection with debt financings and the issuance of redeemable convertible preferred stock.

In August 2017, the Company issued warrants to Oxford and SVB to purchase an aggregate of 682,230 shares of Series D-2 redeemable convertible preferred stock at an exercise price of \$0.6596 per share in connection with the issuance of August 2017 Loan (see Note 7). If there is a subsequent convertible preferred stock or other senior equity securities financing with a per share price less than the Series D-2 redeemable convertible preferred per share price, then the warrant shall automatically

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

convert to a warrant to purchase such class of shares, based on the per share price of such equity (See Note 14). The warrant was exercisable from the date of issuance and has a 10-year term. As of December 31, 2017, the 2017 Warrant to purchase 682,230 shares of Series D-2 redeemable convertible preferred stock was outstanding.

The Company has reserved shares of its Series B, Series C and Series D-2 redeemable convertible preferred stock for issuance upon exercise of the respective warrants. As of December 31, 2016 and 2017, the warrants outstanding and exercisable were as follows:

Stock	Expiration Date	Exercise Price Per Share	Shares as of December 31,		Estimated Fair Value as of December 31,	
			2016	2017	2016	2017
(in thousands except for share and per share amounts)						
Series B redeemable convertible preferred	June 2018	\$ 0.8822	170,030	170,030	\$ 100	\$ 116
Series C redeemable convertible preferred(1)	July 2020 – June 2022	\$ 0.4797	2,479,712	2,479,712	1,093	1,263
Series D-2 redeemable convertible preferred	August 2027	\$ 0.6596	–	682,230	–	329
Total					<u>\$ 1,193</u>	<u>\$ 1,708</u>

(1) 1,791,784 of the Series C redeemable convertible preferred warrants expire at the earlier of (i) the tenth anniversary of issuance; (ii) the consummation of certain change of control events; or (iii) upon the completion of an IPO of the Company's common stock.

The warrants were valued using the Option Pricing Method and were estimated using the following assumptions:

	Year Ended December 31,	
	2016	2017
Average expected life (in years)	2.5	2.5
Expected volatility	84.7%	85.3%
Risk-free interest rate	0.83%	1.55%
Expected dividend	–	–

**Common Stock**

Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders of the Company.

As of December 31, 2017, the Company had reserved common stock, on an if-converted basis, for issuance as follows:

Redeemable convertible preferred stock	184,039,870
Common stock options issued and outstanding	30,329,406
Remaining shares reserved for issuance under 2004 equity Incentive Plan	3,308,488
Warrants to purchase redeemable convertible preferred stock	3,400,681
Warrants to purchase common stock	40,000
Total	<u>221,118,445</u>

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

**11. Stock Options**

Under the Company's 2004 Equity Incentive Plan (the "Plan") and associated amendments, 47,767,230 shares of common stock have been reserved for the issuance of incentive stock options ("ISOs"), NSOs, stock bonuses, and rights to acquire restricted stock to employees, officers, directors, and consultants of the Company as of December 31, 2016 and 2017. ISOs granted under the Plan generally vest 25% after the completion of 12 months of service, with the balance vesting in equal monthly installments over the next 36 months of service, and expire ten years from the grant date. NSOs vest per the specific agreement and expire ten years from the date of grant.

The following table summarizes option activity under the Plan:

	Shares Available for Grant	Outstanding Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Balances at December 31, 2015	13,118,343	22,302,189	\$ 0.32	7.69	\$ 3,935
Granted	(9,732,495)	9,732,495	\$ 0.39		
Exercised	—	(1,291,548)	\$ 0.14		
Canceled	1,807,413	(1,807,413)	\$ 0.19		
Balances at December 31, 2016	5,193,261	28,935,723	\$ 0.28	7.61	\$ 2,685
Granted	(2,265,984)	2,265,984	\$ 0.36		
Exercised	—	(491,090)	\$ 0.19		
Canceled	381,211	(381,211)	\$ 0.34		
Balances at December 31, 2017	3,308,488	30,329,406	\$ 0.28	6.84	\$ 3,813
Exercisable at December 31, 2017		25,952,335	\$ 0.27	6.54	\$ 3,589
Vested and expected to vest at December 31, 2017		29,267,084	\$ 0.28	6.79	\$ 3,761

The aggregate intrinsic value was calculated as the difference between the exercise prices of the underlying stock option awards and the estimated fair value of the Company's common stock on the date of exercise. For the years ended December 31, 2016 and 2017, the aggregate intrinsic value of stock options exercised was \$316,000 and \$91,000, respectively, determined at the date of the option exercise.

**Employee Stock Options Valuation**

The fair value of the shares of common stock underlying stock options was determined by the Company's Board of Directors. Because there was no public market for the Company's common stock, the Board of Directors determined fair value of the common stock at the time of grant of the option by considering a number of objective and subjective factors including important developments in the Company's operations, valuations performed by an independent third party, sales of redeemable convertible preferred stock, actual operating results and financial performance, the conditions in the biotechnology industry and the economy in general, the stock price performance and volatility of comparable public companies, and the lack of liquidity of the Company's common stock, among other factors.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

For determining stock-based compensation expense, the fair-value-based measurement of each employee stock option was estimated as of the date of grant using the Black-Scholes option-pricing model with assumptions as follows:

	Year Ended December 31,	
	2016	2017
Expected term (in years)	5.7-6.1	5.5-6.1
Expected volatility	58.00%-59.00%	56.52-58.55%
Risk-free interest rate	1.24%-2.09%	1.89-2.18%
Expected dividend	—	—

*Expected Term*—The expected term represents the period that the stock-based awards are expected to be outstanding. The Company used the “simplified” method to determine the expected term of options granted, which calculates the expected terms as the average of the weighted-average vesting term and the contractual term of the option.

*Expected Volatility*—Since the Company is not yet a public company and does not have any trading history for its common stock, the expected volatility was estimated based on the average historical volatilities of common stock of comparable publicly traded entities over a period equal to the expected term of the stock option grants. The Company will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

*Risk-Free Interest Rate*—The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero-coupon U.S. Treasury notes with maturities approximately equal to the expected term of the options.

*Expected Dividend*—The Company has never paid dividends on its common stock. Therefore, the Company used an expected dividend yield of zero.

Using the Black-Scholes option-valuation model, the weighted-average estimated grant-date fair value of employee stock options granted during the years ended December 31, 2016 and 2017 was \$0.21 and \$0.20 per share, respectively. The total fair value of options vested during the years ended December 31, 2016 and 2017 was \$942,000 and \$1.6 million, respectively.

***Non-Employee Stock-Based Compensation Expense***

The Company remeasures the estimated fair value of the unvested portion of the award each period, until the award is fully vested. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of services received. The fair value of options granted to non-employees was estimated using the Black-Scholes method. The stock-based compensation expense related to non-employees for the years ended December 31, 2016 and 2017 was \$49,000 and \$69,000, respectively.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

**Stock-Based Compensation Expense**

Total stock-based compensation expense recognized was as follows:

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
	(in thousands)	
Research and development	\$ 104	\$ 119
General and administrative	864	1,272
Total	<u>\$ 968</u>	<u>\$ 1,391</u>

As of December 31, 2017, there was approximately \$1.7 million of total unrecognized compensation cost related to the unvested stock options granted under the Company's Plan. The remaining unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.2 years.

**Early Exercise of Options**

Certain stock options granted under the Company's stock option Plan provide option holders the right to elect to exercise unvested options in exchange for restricted common stock. A summary of the restricted stock shares issued under the Company's Plan is as follows:

	<b>Shares</b>
Balance as of December 31, 2015	1,367,998
Vested	(746,300)
Balance as of December 31, 2016	621,698
Vested	(536,017)
Balance as of December 31, 2017	<u>85,681</u>

The shares are subject to repurchase by the Company at the original exercise price in the event the optionee's employment is terminated either voluntarily or involuntarily. The repurchase right to these shares generally lapses 25% after one year, and the remainder lapses ratably over three years thereafter. The Company treats cash received from the exercise of unvested options as a refundable deposit, shown as a liability in its balance sheets. As of December 31, 2016 and 2017, the Company included cash received for the early exercise of options of approximately \$99,000 and \$14,000, respectively, which is included in other noncurrent liabilities. Amounts are transferred from liabilities into common stock and additional paid-in-capital as the shares vest.

**2017 Call Option Plan**

In February 2017, the Company adopted a 2017 Call Option Plan to grant selected employees, officers, directors and consultants (collectively, the "Participants") options to purchase shares of the common stock of SutroVax, an unconsolidated investee of the Company (see Note 9). The Company has reserved 450,000 shares of SutroVax common stock as of December 31, 2017 for issuance under the program. The call options vest 25% on each of January 1, 2017, 2018, 2019, and 2020, and expire one year from the vesting date.

Using the Black-Scholes option-valuation model, the call options are measured at fair value on grant date and at each reporting period prior to their vesting, with cost recognized over the requisite

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

service period as compensation cost. Any changes in the fair value subsequent to the vesting date are recognized in other income (expense), net in the statement of operations. Call options covering 420,000 shares have been granted with an exercise price of \$0.76 per share, with 105,000 shares vested and exercised during the year ended December 31, 2017. Call options covering 315,000 shares were outstanding and unvested as of December 31, 2017. The amounts recognized as compensation expense and other income (expense) related to the 2017 Call Option Plan were \$79,000 and \$109,000, respectively, for the year ended December 31, 2017.

**12. Income Taxes**

No provision for income taxes was recorded for the years ended December 31, 2016 and 2017. The Company has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. All losses to date have been incurred domestically.

The effective tax rate of the Company's provision (benefit) for income taxes differs from the federal statutory rate as follows:

	Year Ended December 31,	
	2016	2017
Federal statutory rate	34.0%	34.0%
State tax	0.0	0.0
Change in valuation allowance	53.0	20.8
Tax credits	(21.6)	3.8
Remeasurement of federal tax rate change	0.0	(63.4)
Other	(65.4)	4.8
<b>Total</b>	<b>0.0%</b>	<b>0.0%</b>

The components of the Company's deferred tax assets consist of the following:

	December 31	
	2016	2017
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 21,649	\$ 23,820
Research and development credits	8,314	11,244
Deferred revenue	12,457	3,004
Accruals and other	1,605	1,103
Total deferred tax assets	44,025	39,171
Valuation allowance	(43,175)	(39,135)
Net deferred tax assets	850	36
Deferred tax liability	(850)	(36)
Net deferred tax assets	\$ —	\$ —

Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Due to the Company's history of operating losses and future sources of taxable income, the Company believes that the recognition of the deferred tax assets

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

is currently not more likely than not to be realized and, accordingly, have provided a full valuation allowance against net deferred tax assets. For the year ended December 31, 2016, the net increase in the valuation allowance was \$900,000, and for the year ended December 31, 2017, the net decrease in the valuation allowance was \$4.0 million.

As of December 31, 2017, the Company had federal net operating loss carryforwards of \$91.6 million and federal general business credits from research and development expenses totaling \$7.4 million, as well as state net operating loss carryforwards of \$65.2 million and state research and development credits of \$7.8 million.

The federal net operating loss carryforwards will expire at various dates beginning in 2032, and the federal credits will expire at various dates beginning in 2023, if not utilized. The state net operating loss carryforwards will expire at various dates beginning in 2030, if not utilized. The state research and development tax credits can be carried forward indefinitely.

Under the Tax Reform Act, the amount of benefit from net operating loss carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three-year testing period. Such limitations may result in limitations upon the Company's ability to utilize the losses in future periods. The Company has performed a Section 382 study for the period of June 16, 2003 through December 31, 2016, and concluded that it is more likely than not that the Company experienced an ownership change on April 9, 2007. This change does not limit the Company's ability to use its existing net operating losses within the carryforward period provided by the Internal Revenue Code, subject to availability of taxable income. However, if there is subsequent event or further change in ownership, these losses may be subject to limitations, resulting in their expiration before they can be utilized.

The Company files U.S. federal and state tax returns with varying statutes of limitations. Due to net operating loss and credit carryforwards, all of the tax years since inception through the 2017 tax year remain subject to examination by the U.S. federal and some state authorities. The actual amount of any taxes due could vary significantly depending on the ultimate timing and nature of any settlement. The amount of unrecognized tax benefits, if recognized, that would affect the effective tax rate is \$1.6 million and \$2.3 million as of December 31, 2016 and 2017, respectively. One or more of these unrecognized tax benefits could be subject to a valuation allowance if and when recognized in a future period, which could impact the timing of any related effective tax rate benefit. The Company believes that the amount by which the unrecognized tax benefits may increase or decrease within the next 12 months is not estimable.

The Company has elected to recognize, if incurred, interest and penalties related to liabilities for uncertain tax positions as a part of income tax expense. No such interest and penalties have been incurred to date.

The Company determines its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings is more likely than not to be sustained upon examination by the relevant income tax authorities.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	December 31	
	2016	2017
	(in thousands)	
Gross unrecognized tax benefit at January 1	\$ 1,205	\$ 1,635
Additions for tax positions taken in the current year	430	670
Gross unrecognized tax benefit at December 31	<u>\$ 1,635</u>	<u>\$ 2,305</u>

***Impact of The Tax Cuts and Jobs Act***

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law. The Tax Act reduces the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%. The Tax Act also contains a number of provisions that may impact the Company in future years. Although the Tax Act is generally effective January 1, 2018, U.S. GAAP requires recognition of the tax effects of new legislation during the reporting period that includes the enactment date, which was December 22, 2017. On December 22, 2017, the Securities Exchange Committee staff issued Staff Accounting Bulletin No. 118 ("SAB 118") which provides guidance on accounting for the tax effects of the Tax Reform Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Reform Act enactment date for companies to complete the accounting under ASC 740, *Income Taxes*.

The primary impact of the Tax Act resulted from the re-measurement of deferred tax assets and liabilities due to the change in the corporate tax rate, reducing the Company's deferred tax assets by \$12.3 million with a corresponding reduction in its valuation allowance, which had no effect on the Company's effective tax rate. This decrease in deferred tax assets and corresponding adjustment to the valuation allowance represent the Company's reasonable estimates based on the corporate tax rate reduction to 21% for tax years beginning after December 31, 2017 and are provisional amounts within the meaning of SAB 118.

Although the tax rate reduction is known, since the Tax Reform Act was recently finalized and ongoing guidance and accounting interpretation is expected over the next twelve months, the Company expects to collect and prepare necessary data, and interpret any additional guidance to complete a more detailed analysis of the effect of the Tax Reform Act on the underlying deferred taxes and as such, the amounts recorded as of December 31, 2017 are provisional. However, the Company anticipates that any adjustment to provisional amounts recorded would be fully offset by a corresponding change to the Company's valuation allowance.



**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

**13. Net Income (Loss) Per Share Attributable to Common Stockholders**

The following table sets forth the computation of the Company's basic and diluted net income (loss) per share attributable to common stockholders.

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>(in thousands, except share and per share amounts)</b>		
<b>Numerator:</b>		
Net income (loss)	\$ 1,702	\$ (19,688)
Noncumulative dividends on redeemable convertible preferred stock	(1,702)	—
Net income (loss) attributable to common stockholders, basic and diluted	<u>\$ —</u>	<u>\$ (19,688)</u>
<b>Denominator:</b>		
Shares used in computing net income per share attributable to common stockholders, basic and diluted	<u>14,804,949</u>	<u>16,265,874</u>
<b>Net income (loss) per share attributable to common stockholders:</b>		
Basic	<u>\$ —</u>	<u>\$ (1.21)</u>
Diluted	<u>\$ —</u>	<u>\$ (1.21)</u>

The following common stock equivalents were excluded from the computation of diluted net income (loss) per share for the year ended December 31, 2016 as net income attributable to common stock holders was nil, and for the year ended December 31, 2017 because including them would have been antidilutive:

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
Redeemable convertible preferred stock	184,039,870	184,039,870
Options to purchase common stock	28,935,723	30,329,406
Warrants to purchase redeemable convertible preferred stock	2,718,452	3,400,681
Warrants to purchase common stock	40,000	40,000
Early exercised shares of common stock	621,698	85,681
Total	<u>216,355,743</u>	<u>217,895,638</u>

**Unaudited Pro Forma Net Loss Per Share**

Pro forma basic and diluted net loss per share of common stock have been computed to give effect to the assumed conversion of the redeemable convertible preferred stock, the assumed net exercise of certain redeemable convertible preferred stock warrants and common stock warrants and the assumed conversion of the remaining redeemable convertible preferred stock warrants into common stock warrants upon the completion of a qualifying IPO of the Company's common stock. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains or losses resulting from the remeasurement of the redeemable convertible preferred stock warrant liability.

**Sutro Biopharma, Inc.**  
**Notes to Financial Statements**

The following table sets forth the computation of the Company's pro forma basic and diluted net loss per share of common stock.

	Year Ended December 31, 2017 (in thousands, except share and per share amounts): (unaudited)
<b>Numerator:</b>	
Net loss	\$ (19,688)
Change in fair value of redeemable convertible preferred stock warrant liability	(186)
Pro forma net loss, basic and diluted	<u>\$ (19,502)</u>
<b>Denominator:</b>	
Weighted-average common shares used in net loss per share, basic and diluted	
Pro forma adjustment to reflect assumed cashless exercise of certain redeemable convertible preferred stock warrants and common stock warrants	
Pro forma adjustment to reflect assumed conversion of redeemable convertible preferred stock	
Pro forma weighted-average shares of common stock, basic and diluted	<u>                    </u>
Pro forma net loss per share, basic and diluted	<u>\$</u>

#### 14. Subsequent Events

Management has reviewed and evaluated material subsequent events from the balance sheet date of December 31, 2017, through the date of the report of the Independent Registered Public Accounting Firm. No subsequent events have been identified for disclosure, other than as noted below.

On May 25, 2018, the Company raised \$31.6 million in funding through the sale and issuance of 99,044,781 shares of a newly authorized series of preferred stock, Series E redeemable convertible preferred stock, at \$0.3193 per share. The Series E redeemable convertible preferred stock per share price was less than the conversion price per share in each of the Company's prior redeemable convertible preferred stock financings, and therefore, each prior conversion price was lowered by applying a broad-based weighted average adjustment. Additionally, in connection with the August 2017 Loan, the Company issued to Oxford and SVB a warrant to purchase 454,820 shares and 227,410 shares, respectively, of Series D-2 redeemable convertible preferred stock at an exercise price of \$0.6596 per share (the "2017 Warrant"). Given that the price per share of the Series E redeemable convertible preferred stock was less than the Series D-2 redeemable convertible preferred per share price, the 2017 Warrant converted into a warrant to purchase a total of 1,409,332 shares of Series E redeemable convertible preferred stock at an exercise price of \$0.3193 per share.

**Sutro Biopharma, Inc.**  
**Condensed Balance Sheets**  
(In thousands, except share and per share amounts)

	December 31, 2017	June 30, 2018	Pro Forma Stockholders' Equity as of June 30, 2018
	(See Note 2)	(unaudited)	(unaudited)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 22,020	\$ 25,420	
Accounts receivable (including amounts from related parties of \$784 and \$1,936 (unaudited) as of December 31, 2017 and June 30, 2018, respectively)	1,624	3,184	
Prepaid expenses and other current assets	1,985	1,619	
Total current assets	25,629	30,223	
Property and equipment, net	13,997	11,860	
Other long-term assets	1,128	3,083	
Restricted cash	15	15	
Total assets	\$ 40,769	\$ 45,181	
<b>Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' (Deficit) Equity</b>			
Current liabilities:			
Accounts payable	\$ 2,902	\$ 2,688	
Accrued compensation	3,639	4,080	
Deferred revenue—current	10,709	10,360	
Debt—current	14,634	2,000	
Other current liabilities	72	98	
Total current liabilities	31,956	19,226	
Deferred revenue, non-current	13,159	8,186	
Deferred rent	428	465	
Redeemable convertible preferred stock warrant liability	1,708	801	
Debt, non-current	—	12,802	
Other non-current liabilities	14	—	
Total liabilities	47,265	41,480	
Commitments and contingencies			
Redeemable convertible preferred stock, \$0.001 par value—177,082,393 and 366,402,781 shares authorized as of December 31, 2017 and June 30, 2018 (unaudited), respectively; 173,750,421 and 298,590,921 shares issued and outstanding as of December 31, 2017 and June 30, 2018 (unaudited); aggregate liquidation preference of \$136,370 as of June 30, 2018 (unaudited); no shares issued and outstanding as of June 30, 2018 pro forma (unaudited)	102,505	135,720	
Stockholders' deficit:			
Common stock, \$0.001 par value—271,000,000 and 540,000,000 shares authorized as of December 31, 2017 and June 30, 2018 (unaudited), respectively; 16,897,022 and 17,407,675 shares issued and outstanding as of December 31, 2017 and June 30, 2018 (unaudited), respectively; shares issued and outstanding as of June 30, 2018, pro forma (unaudited)	17	17	
Note receivable from stockholder	(208)	(208)	
Additional paid-in capital	6,201	6,770	
Accumulated deficit	(115,011)	(138,598)	
Total stockholders' (deficit) equity	(109,001)	(132,019)	\$
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	\$ 40,769	\$ 45,181	

*See accompanying notes to unaudited interim condensed financial statements.*

**Sutro Biopharma, Inc.**  
**Condensed Statements of Operations**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

	Six Months Ended	
	June 30,	
	2017	2018
Revenue:		
Collaboration revenue (including amounts from related parties of \$26,538 and \$3,355 during the six months ended June 30, 2017 and 2018, respectively)	\$ 30,202	\$ 7,031
Other revenue—related parties	—	4,466
Total revenue	<u>30,202</u>	<u>11,497</u>
Operating expenses:		
Research and development	25,830	26,833
General and administrative	7,411	8,455
Total operating expenses	<u>33,241</u>	<u>35,288</u>
Loss from operations	(3,039)	(23,791)
Interest income	130	80
Interest expense	—	(784)
Other income (expense), net	(17)	908
Net loss	<u>\$ (2,926)</u>	<u>\$ (23,587)</u>
Net loss per share, basic and diluted	<u>\$ (0.18)</u>	<u>\$ (1.37)</u>
Weighted-average shares used in computing net loss per share, basic and diluted	<u>16,015,593</u>	<u>17,162,459</u>
Pro forma net loss per share, basic and diluted		<u>\$</u>
Weighted-average shares used in computing pro forma net loss per share, basic and diluted		<u>=====</u>

*See accompanying notes to unaudited interim condensed financial statements*

**Sutro Biopharma, Inc.**  
**Condensed Statements of Comprehensive Loss**  
**(Unaudited)**  
**(In thousands)**

	Six Months Ended June 30,	
	2017	2018
Net loss	\$(2,926)	\$(23,587)
Other comprehensive income:		
Unrealized gain on available-for-sale securities	11	—
Comprehensive loss	<u>\$(2,915)</u>	<u>\$(23,587)</u>

*See accompanying notes to unaudited interim condensed financial statements.*

**Sutro Biopharma, Inc.**  
**Condensed Statements of Cash Flows**  
**(Unaudited)**  
**(In thousands)**

	Six Months Ended June 30,	
	2017	2018
<b>Operating activities</b>		
Net loss	\$ (2,926)	\$(23,587)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,600	2,285
Amortization of premium on marketable securities	88	—
Stock-based compensation expense	533	481
Revaluation of SutroVax option liability	66	26
Revaluation of redeemable convertible preferred stock warrant liability	—	(907)
Accretion of debt discount	—	78
Loss on disposal of property and equipment	90	35
Other revenue	—	(140)
Changes in operating assets and liabilities:		
Accounts receivable	(562)	(1,560)
Prepaid expenses and other assets	80	(261)
Accounts payable	(756)	(650)
Accrued compensation	(881)	440
Other liabilities	50	90
Deferred rent	20	37
Deferred revenue	(28,598)	(5,322)
Net cash used in operating activities	(30,196)	(28,955)
<b>Investing activities</b>		
Purchases of marketable securities	(5,036)	—
Maturities of marketable securities	27,850	—
Sales of marketable securities	3,800	—
Purchases of property and equipment	(1,798)	(400)
Net cash provided by (used in) investing activities	24,816	(400)
<b>Financing activities</b>		
Payment of deferred offering costs	—	(534)
Proceeds from issuances of common stock upon exercise of stock options	38	74
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	33,215
Net cash provided by financing activities	38	32,755
Net (decrease) increase in cash, cash equivalents and restricted cash	(5,342)	3,400
Cash, cash equivalents and restricted cash at beginning of period	11,868	22,035
Cash, cash equivalents and restricted cash at end of period	\$ 6,526	\$ 25,435
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ —	\$ 616
<b>Supplemental Disclosures of Non-Cash Investing and Financing Information</b>		
Vesting of early exercised shares	\$ 21	\$ 14
Purchase of property and equipment included in accounts payable	\$ 218	\$ 37
Deferred initial public offering costs included in accounts payable and accrued liabilities	\$ —	\$ 654

*See accompanying notes to unaudited interim condensed financial statements.*

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

**1. Organization and Principal Activities**

***Description of Business***

Sutro Biopharma, Inc. (the "Company") is a clinical stage drug discovery, development and manufacturing company focused on leveraging its integrated cell-free protein synthesis platform, XpressCF, to create a broad variety of optimally designed, next-generation protein therapeutics for cancer and autoimmune disorders. The Company was incorporated on April 21, 2003, and was formerly known as Fundamental Applied Biology, Inc. The Company is headquartered in South San Francisco, California.

The Company operates in one business segment, the development of biopharmaceutical products.

**Series E Redeemable Convertible Preferred Stock Split**

In July 2018, the Company's board of directors approved an amendment to the Company's amended and restated certificate of incorporation to effect a 1-for-1.1940912491 split ("Split") of shares of the Company's Series E redeemable convertible preferred stock, which was effected on July 26, 2018. The par value and authorized shares of redeemable convertible preferred stock and the other outstanding shares of redeemable convertible preferred stock were not adjusted as a result of the Split. All of the outstanding Series E redeemable convertible preferred shares and per share information included in the accompanying financial statements have been adjusted to reflect the Split.

***Liquidity***

The Company has incurred significant losses and has negative cash flows from operations. As of June 30, 2018, there was an accumulated deficit of \$138.6 million. Management expects to continue to incur additional substantial losses in the foreseeable future as a result of the Company's research and development activities.

As of June 30, 2018, the Company had unrestricted cash and cash equivalents of \$25.4 million, which is available to fund future operations. The Company will need to raise additional capital to support the completion of its research and development activities. The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding to continue to operationalize the Company's current technology and to advance the development of its product candidates.

In July 2018, the Company received \$52.0 million in gross proceeds from the sale of 194,465,218 shares of Series E redeemable convertible preferred stock. Additionally, the Company received in August 2018 \$60.0 million in an upfront payment under a collaboration agreement entered into with Merck in July 2018 (See Note 12). The Company believes that its cash and cash equivalents as of June 30, 2018, along with the proceeds received from the preferred stock financing and collaboration agreement, will be sufficient for the Company to continue as a going concern for at least one year from the issuance date of its unaudited interim condensed financial statements.

In August 2017, the Company entered into a loan and security agreement with Oxford Finance LLC and Silicon Valley Bank under which it borrowed \$15.0 million (the "August 2017 Loan") (see Note 6). The August 2017 Loan provides that an event of default will occur if, among other triggers, there occurs any circumstances that could reasonably be expected to result in a material adverse effect on the Company's business, operations or condition, or on its ability to perform its obligations under the loan. The Company disclosed in its audited financial statements as of December 31, 2017 that the Company believed that there was substantial doubt about its ability to continue as a going concern.

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

given its continuing operating losses and its then current available capital resources, which could be deemed to be an event of default if such condition was considered to have a material adverse effect on the Company's business, operations or condition. As a result, the Company classified the entire debt balance as a current liability as of December 31, 2017 given that a determination of such an event of default was outside of the Company's control. Based on the financing and collaboration proceeds described above, as of June 30, 2018, the Company has classified \$2.0 million of the outstanding debt balance as current and the remainder as non-current, which reflects the scheduled repayments under the August 2017 Loan.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company bases its estimates on historical experience and market-specific or other relevant assumptions that it believes are reasonable under the circumstances. The amounts of assets and liabilities reported in the Company's balance sheets and the amount of expenses and income reported for each of the periods presented are affected by estimates and assumptions, which are used for, but are not limited to, determining research and development periods under multiple element arrangements, stock-based compensation expense, fair value of redeemable convertible preferred stock and warrant liabilities, fair value of common stock, income taxes and certain accrued liabilities. Actual results could differ from such estimates or assumptions.

***Unaudited Interim Condensed Financial Statements***

The interim condensed balance sheet as of June 30, 2018, and the condensed statements of operations, comprehensive loss and cash flows for the six months ended June 30, 2017 and 2018 are unaudited. The unaudited interim condensed financial statements have been prepared on the same basis as the annual financial statements and reflect, in the opinion of management, all adjustments of a normal and recurring nature that are necessary for the fair statement of the Company's financial position as of June 30, 2018 and its results of operations and cash flows for the six months ended June 30, 2017 and 2018. The financial data and the other financial information disclosed in these notes to the condensed financial statements related to the six-month periods are also unaudited. The results of operations for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any other future annual or interim period. The balance sheet as of December 31, 2017 included herein was derived from the audited financial statements as of that date. These condensed financial statements should be read in conjunction with the Company's audited financial statements included elsewhere in this prospectus.

***Unaudited Pro Forma Financial Information***

Immediately prior to the completion of an initial public offering ("IPO") of the Company's common stock, all outstanding shares of redeemable convertible preferred stock will convert into common stock and certain redeemable convertible preferred stock warrants and common stock warrants will be net exercised into shares of common stock. Unaudited pro forma stockholders' equity information as of June 30, 2018 assumes the conversion of all outstanding redeemable convertible preferred stock into shares of common stock. The shares of common stock issuable and the proceeds expected to be received in the IPO are excluded from such pro forma financial information. In addition, the unaudited pro forma stockholders' equity assumes the reclassification of the redeemable convertible preferred



**Sutro Biopharma, Inc.****Notes to Unaudited Interim Condensed Financial Statements**

stock warrant liability to stockholders' equity upon completion of an IPO due to the automatic net exercise of certain redeemable preferred stock warrants and the conversion of the remaining redeemable preferred stock warrants into common stock warrants upon an IPO. Unaudited pro forma stockholders' equity information as of June 30, 2018 also assumes the repayment of principal and interest on a \$0.2 million outstanding note issued to an executive officer.

Pro forma basic and diluted net loss per share has been computed to give effect to the conversion of all outstanding redeemable convertible preferred stock into shares of common stock and the net exercise of certain redeemable convertible preferred stock warrants and common stock warrants. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains or losses resulting from the remeasurement of the redeemable convertible preferred stock warrant liability. The unaudited pro forma net loss per share does not include the shares expected to be sold and related proceeds to be received from the IPO. The unaudited pro forma net loss per share for the six months ended June 30, 2018 was computed using the weighted-average number of shares of common stock outstanding, including the pro forma effect of the conversion of all outstanding shares of redeemable convertible preferred stock into shares of common stock and the net exercise of certain redeemable convertible preferred stock warrants and common stock warrants, as if such conversion or net exercise had occurred at the beginning of the period, or their issuance dates if later.

**Cash, Cash Equivalents, and Restricted Cash**

The Company considers all highly liquid investments with original maturities of 90 days or less from the date of purchase to be cash equivalents.

Under certain lease and credit agreements, the Company has pledged cash and cash equivalents as collateral. Restricted cash related to such agreements was \$15,000 as of December 31, 2017 and June 30, 2018, respectively.

The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same amounts shown in the statements of cash flows.

	June 30,	
	2017	2018
	(in thousands)	
Cash and cash equivalents	\$ 6,511	\$ 25,420
Restricted cash	15	15
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	<u>\$ 6,526</u>	<u>\$ 25,435</u>

**Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or an exit price, in the principal or most advantageous market for that asset or liability in an orderly transaction between market participants on the measurement date, and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available, and minimizes the use of unobservable inputs when measuring fair value. The Company determined the fair value of financial assets and liabilities using the fair value hierarchy that describes three levels of inputs that may be used to measure fair value, as follows:

Level 1—Quoted prices in active markets for identical assets and liabilities;

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of accounts receivable, prepaid expenses, accounts payable, accrued liabilities and accrued compensation and benefits approximate fair value due to the short-term nature of these items.

The fair value of the Company's outstanding loan (See Note 6) is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rate, which is a Level 2 input. The estimated fair value of the Company's outstanding loan approximates the carrying amount, as the loan bears a floating rate that approximates the market interest rate.

***Deferred Offering Costs***

The Company has deferred offering costs consisting of legal, accounting and other fees and costs directly attributable to the Company's planned IPO. The deferred offering costs will be offset against the proceeds received upon the completion of the planned IPO. In the event the planned IPO is terminated, all of the deferred offering costs will be expensed within the Company's statements of operations. As of December 31, 2017 and June 30, 2018, \$545,000 and \$1.2 million, respectively, of deferred offering costs were recorded within other long-term assets on the balance sheet.

***Redeemable Convertible Preferred Stock Warrants***

The Company accounts for its redeemable convertible preferred stock warrants as a liability, and they are recorded at their estimated fair value, because the warrants may conditionally obligate the Company to transfer assets at some point in the future. At the end of each reporting period, changes in the estimated fair value during the period are recorded in other income (expense), net in the statement of operations. The Company will continue to adjust the liability for changes in estimated fair value until the earlier of the expiration of the warrants, exercise of the warrants, or conversion of the redeemable convertible preferred stock warrants into common stock warrants upon the completion of a liquidation event, including the completion of an IPO.

***Revenue Recognition***

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

For multiple-element arrangements, each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting if both of the following criteria are met: the delivered item or items has value to the customer on a stand-alone basis; and (ii) for an arrangement that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in management's control.

The Company recognizes revenue from milestone payments when: (i) the milestone event is substantive and its achievability has substantive uncertainty at the inception of the agreement, and the Company has completed its performance obligations related to the achievement of the milestone. Milestone payments are considered substantive if all of the following conditions are met: the milestone

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

payment (a) is commensurate with either the Company's performance subsequent to the inception of the arrangement to achieve the milestone or the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the Company's performance subsequent to the inception of the arrangement to achieve the milestone, (b) relates solely to past performance, and (c) is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Determining whether and when these revenue recognition criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of reported revenue. Changes in assumptions or judgments or changes to the elements in an arrangement could cause a material increase or decrease in the amount of revenue that is reported in a particular period.

Under certain collaborative arrangements, the Company is entitled to payments for certain research and development activities and for providing product and other related materials. The Company's policy is to account for such payments by its collaboration partners as collaboration revenue.

***Research and Development***

Research and development costs are expensed as incurred. Research and development expenses consist of costs incurred in performing research and development activities: salaries, employee benefits, laboratory supplies, outsourced research and development expenses, professional services and allocated facilities-related costs. Amounts incurred in connection with collaboration arrangements are also included as a research and development expense.

Nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities are deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed.

For outsourced research and development expenses, such as professional fees payable to third parties for preclinical studies, clinical trials and research services, and other consulting costs, the Company estimates the expenses based on the services performed, pursuant to contracts with research institutions that conduct and manage preclinical studies, clinical trials and research services on its behalf. The Company estimates these expenses based on discussions with internal management personnel and external service providers as to the progress or stage of completion of services and the contracted fees to be paid for such services. If the actual timing of the performance of services or the level of effort varies from the original estimates, the Company will adjust the accrual accordingly. Payments made to third parties under these arrangements in advance of the performance of the related services by the third parties are recorded as prepaid expenses until the services are rendered.

***Net Loss Per Share***

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, without consideration for potential dilutive common shares. Basic net loss per share is the same as diluted net loss per share as the inclusion of all potential dilutive common shares would have been anti-dilutive.

Shares of common stock subject to repurchase are excluded from the computation of weighted-average shares as the continued vesting of such shares is contingent upon the holders' continued

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

service to the Company. For the computation of net loss per share for the six months ended June 30, 2017 and 2018, 489,847 and zero shares subject to repurchase, respectively, were excluded from the computation of net loss per share.

***Recent Accounting Pronouncements***

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB"), or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective will not have a material impact on the Company's financial statements upon adoption. Under the Jumpstart Our Business Startups Act of 2012, as amended (the "JOBS Act"), the Company meets the definition of an emerging growth company, and has elected the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

***New Accounting Pronouncements Not Yet Adopted***

In May 2014, the FASB issued ASU No. 2014-09 (Topic 606), Revenue from Contracts with Customers. In August 2015, the FASB issued ASU No. 2015-14 (Topic 606), Revenue from Contracts with Customers: Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, became effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For entities other than public entities, the standard is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption is permitted. ASU 2014-09 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company will adopt the standard as of January 1, 2019 and is still in the process of evaluating the effect this guidance will have on revenue recognition for its collaboration and license agreements.

The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. generally accepted accounting pronouncements. All of the Company's revenue is currently generated from up-front payments, research and development services, and milestone and contingent payments under its collaboration arrangements. The Company is currently evaluating its collaboration agreements to determine the impact of adopting ASU 2014-09, inclusive of available transitional methods, on its financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01 (Topic 825), Recognition and Measurement of Financial Assets and Financial Liabilities, which will change how to recognize, measure, present and make disclosures about certain financial assets and financial liabilities. Under ASU 2016-01, if an entity designates a financial liability under the fair value option ("FVO") in accordance with ASC 825, the entity shall measure the financial liability at fair value with qualifying changes in fair value recognized in net income. The entity shall present separately in other comprehensive income the portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk.

For public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

after December 15, 2019. All entities can early adopt the provision related to financial liabilities measured using the FVO in ASC 825 for financial statements of annual or interim periods that have not yet been issued or made available for issuance. The Company does not expect the adoption of this amendment will have a material impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02 (Topic 842), Leases, which requires an entity to recognize assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 is effective for public entities for interim and annual periods beginning after December 15, 2018. For nonpublic entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating how and to what extent ASU 2016-02 will affect the Company's financial position, results of operations, cash flows and related disclosures.

In August 2016, the FASB issued ASU 2016-15 (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The new guidance clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. ASU 2016-15 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. The Company has adopted this amendment as of January 1, 2018, which did not have a material impact on its financial statements.

**3. Fair Value Measurements**

The following table sets forth the fair value of the Company's financial assets and liabilities measured on a recurring basis by level within the fair value hierarchy:

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
<b>Assets:</b>				
Money market funds	\$ 6,578	\$ 6,578	\$ —	\$ —
Commercial paper	7,689	—	7,689	—
Corporate debt securities	800	—	800	—
U.S. government agency securities	3,893	—	3,893	—
<b>Total</b>	<b>\$ 18,960</b>	<b>\$ 6,578</b>	<b>\$ 12,382</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Redeemable convertible preferred stock warrant liability	\$ 1,708	\$ —	\$ —	\$ 1,708
<b>Total</b>	<b>\$ 1,708</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,708</b>
	June 30, 2018			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
<b>Assets:</b>				
Money market funds	\$18,997	\$18,997	\$ —	\$ —
Corporate debt securities	5,020	—	5,020	—
<b>Total</b>	<b>\$24,017</b>	<b>\$18,997</b>	<b>\$5,020</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Redeemable convertible preferred stock warrant liability	\$ 801	\$ —	\$ —	\$ 801
<b>Total</b>	<b>\$ 801</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 801</b>

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

Where applicable, the Company uses quoted market prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments, which are composed of money market funds.

If quoted prices in active markets for identical assets are not available, then the Company uses quoted prices for similar assets or inputs other than quoted prices that are observable, either directly or indirectly. These investments are included in Level 2 and consist of commercial paper, corporate debt securities, and U.S. government agency securities. These assets are valued using market prices when available, adjusting for accretion of the purchase price to face value at maturity.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3 within the valuation hierarchy. Level 3 liabilities that are measured at estimated fair value on a recurring basis consist of the redeemable convertible preferred stock warrant liability. Refer to Note 8 for the valuation techniques used to measure fair value and a description of the inputs and the information used to develop the inputs to the valuation models.

Generally, increases or decreases in the fair value of the underlying redeemable convertible preferred stock would result in a directionally similar impact in the fair value measurement of the associated warrant liability. There were no transfers within the hierarchy during the six months ended June 30, 2017 and 2018.

The following table sets forth a summary of the changes in the estimated fair value of the Company's redeemable convertible preferred stock warrant liability:

	<b>Redeemable Convertible Preferred Stock Warrant Liability (in thousands)</b>
Balance as of December 31, 2017	\$ 1,708
Gain due to change in fair value of warrant liability included in other income (expense), net	(907)
Balance as of June 30, 2018	<u>\$ 801</u>

**4. Cash Equivalents**

Cash equivalents consisted of the following:

	<b>December 31, 2017</b>			<b>Fair Value</b>
	<b>Amortized Cost Basis</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	
	(in thousands)			
Money market funds	\$ 6,578	\$ —	\$ —	\$ 6,578
Commercial paper	7,689	—	—	7,689
Corporate debt securities	800	—	—	800
U.S. government agencies	3,893	—	—	3,893
<b>Total</b>	<u>\$ 18,960</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18,960</u>

**Sutro Biopharma, Inc.**  
**Notes to Unaudited Interim Condensed Financial Statements**

	June 30, 2018			Fair Value
	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	
	(in thousands)			
Money market funds	\$ 18,997	\$ —	\$ —	\$18,997
Corporate debt securities	5,020	—	—	5,020
<b>Total</b>	<b>\$ 24,017</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$24,017</b>

**5. Collaboration Agreements and Supply Agreements**

The Company has recognized revenue as follows:

	Six months ended June 30,	
	2017	2018
	(in thousands)	
<b>Collaboration revenue:</b>		
Celgene Corporation (“Celgene”)—related party:		
Amortization of up-front payments	\$ 13,713	\$ 3,257
Research and development services	—	98
Milestones and contingent payments	12,825	—
Total	26,538	3,355
Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name “EMD Serono”):		
Amortization of up-front payment	2,060	2,066
Research and development services	1,604	1,610
Total	3,664	3,676
<b>Total collaboration revenue</b>	<b>\$ 30,202</b>	<b>\$ 7,031</b>
<b>Other revenue—related parties:</b>		
Celgene Corporation:		
Development and manufacturing services and clinical product supply	\$ —	\$ 3,564
SutroVax:		
Supply and other	—	902
<b>Total other revenue—related parties</b>	<b>\$ —</b>	<b>\$ 4,466</b>

**2014 Celgene Agreement**

In September 2014, the Company signed a Collaboration and License Agreement with Celgene (the “2014 Celgene Agreement”) to discover and develop bispecific antibodies and/or antibody-drug conjugates (“ADCs”), focused primarily on the field of immuno-oncology, using the Company’s proprietary integrated cell-free protein synthesis platform, XpressCF.

Upon signing the 2014 Celgene Agreement, the Company received an up-front, nonrefundable payment totaling \$83.1 million. Celgene had the option to extend the collaboration beyond the initial three-year research term in exchange for an additional payment. The Company was recognizing revenues from the up-front payment ratably over an approximate three-year period starting in September 2014.

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

In March 2015, the Company received a \$15.0 million contingent payment (“March 2015 payment”) from Celgene under the 2014 Celgene Agreement that provided Celgene a right to access certain of the Company’s technology for use in conjunction with certain Celgene intellectual property. In June 2016, the Company received a \$25.0 million milestone (“June 2016 payment”) upon completion of certain preclinical activities. The March 2015 and June 2016 payments are being recognized as revenue over the remaining portion of the estimated period of the research term.

**2017 Celgene Agreement**

In August 2017, the Company entered into the 2017 Celgene Agreement to refocus its 2014 Celgene Agreement on four programs that are advancing throughout preclinical development, including an ADC program targeting B cell maturation antigen.

Upon signing of the 2017 Celgene Agreement, the Company received an option fee payment of \$12.5 million in August 2017 and is eligible to receive a second option fee payment of \$12.5 million following the first investigational new drug (“IND”) clearance, if any, for one of the four programs, if Celgene desires to maintain its option to acquire the U.S. rights to develop and commercialize a second collaboration program to reach IND status. If Celgene exercises its option to acquire from the Company U.S. rights to a second collaboration program, it will make an option exercise fee payment to the Company, the amount of which depends on which program reaches IND status. The Company determined that the initial \$12.5 million payment should be deferred and recognized over the entire potential period during which Celgene has an option to acquire worldwide rights to a second collaboration program. Consequently, the Company is recognizing revenue from such payment ratably over an approximate three-year period starting in August 2017 and ending in September 2020.

The Company evaluated the terms of the 2017 Celgene Agreement, relative to the 2014 Celgene Agreement, and determined the 2017 Celgene Agreement to be a material modification to the 2014 Celgene Agreement for financial reporting purposes. As a result, the Company determined that the remaining deferred revenue balance of \$8.2 million as of the date of entering into the 2017 Celgene Agreement, related to Celgene payments to the Company under the 2014 Celgene Agreement, will also be recognized ratably over an approximate three-year period starting in August 2017 and ending in September 2020. The Company has received and will be eligible to receive financial support for research and development services assigned to the Company by Celgene, based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate, which will be recognized as revenue as the related reimbursable activities approved by Celgene and the Company are performed by the Company.

Under the terms of the 2017 Celgene Agreement, the Company is entitled to earn development and regulatory contingent payments for each of the four programs under the collaboration, and royalties on sales of any commercial products that may result from the 2017 Celgene Agreement. As of June 30, 2018, the Company is eligible to receive a potential future payment for manufacturing activities of \$10.0 million, which is considered to be a substantive milestone for which the related payment will be recognized as revenue upon achievement. In addition, for licensed products for which Celgene holds worldwide rights, the Company is eligible to receive aggregate milestone and option fee payments of up to \$295.0 million for certain licensed products and up to \$393.7 million for certain other licensed products under the collaboration, if approved in multiple indications, and, depending on the licensed product, tiered royalties ranging from single digits to low teen percentages on worldwide sales of any commercial products that may result from the 2017 Celgene Agreement. Additionally, for licensed products for which Celgene holds ex-U.S. rights, the Company will also be eligible to receive



**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

pre-commercial contingent payments and tiered royalties ranging from mid to high single digit percentages. The contingent payments under the 2017 Celgene Agreement are not considered to be substantive milestones because the receipt of such payments is based solely on the performance of Celgene.

Celgene may terminate the 2017 Celgene Agreement at any time with 120 days' prior written notice. Either the Company or Celgene has the right to terminate the 2017 Celgene Agreement based on the other party's uncured material breach, challenge of the validity and enforceability of intellectual property, or bankruptcy.

In addition, the Company granted Celgene the right to purchase shares of Company's stock in certain future financings by the Company.

As of December 31, 2017 and June 30, 2018, there was \$18.0 million and \$14.8 million, respectively, of deferred revenue related to payments received by the Company under the 2017 Celgene Agreement.

As of December 31, 2017 and June 30, 2018, the Company had \$750,000 and \$1.3 million respectively, of receivables from Celgene related to the 2017 Celgene Agreement, which is included in accounts receivable on the balance sheet.

**2018 Master Services Agreement**

In March 2018, the Company entered into a Master Development and Clinical Manufacturing Services Agreement (the "Master Services Agreement") with Celgene, wherein Celgene requested the Company to provide development, manufacturing and supply chain management services, including clinical product supply. The consideration for the services is based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate in addition to agreed-upon pricing for the clinical product supply. For the six months ended June 30, 2018, the Company earned \$3.6 million in other revenue-related parties under the Master Services Agreement.

**EMD Serono Agreement**

The Company signed a Collaboration Agreement and a License Agreement with EMD Serono in May 2014 and September 2014, respectively, which were entered into in contemplation of each other and therefore treated as a single agreement for accounting purposes. The Collaboration Agreement was terminated upon execution of the License Agreement (the "MDA Agreement"), which agreement is to develop ADCs for multiple cancer targets.

Upon signing the Collaboration Agreement, the Company received an up-front, nonrefundable, non-creditable payment totaling \$10.0 million. Upon signing the MDA Agreement, the Company received an additional up-front, nonrefundable payment totaling \$10.0 million and will receive financial support for research and development services to be provided by the Company, based on an agreed-upon level of full-time equivalent personnel effort and related reimbursement rate.

The Company is recognizing revenues from the up-front payments ratably over an estimated five-year period starting in June 2014. Revenue for research and development services under the MDA Agreement will be recognized as revenue as the related reimbursable activities approved by EMD Serono and the Company are performed by the Company.

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

The Company is eligible to receive up to \$52.5 million for each product developed under the MDA Agreement, primarily from pre-commercial contingent payments. In addition, the Company is eligible to receive tiered royalties ranging from low-to-mid single digit percentages, along with certain additional one-time royalties, on worldwide sales of any commercial products that may result from the MDA Agreement. The MDA Agreement term expires on a product-by-product and country-by-country basis. Upon expiration, EMD Serono will have a fully paid-up, royalty-free, perpetual, and irrevocable non-exclusive license, with the right to grant sublicenses, under certain Company intellectual property rights. As of December 31, 2017 and June 30, 2018, there was \$5.9 million and \$3.8 million, respectively, of deferred revenue related to payments received by the Company under the MDA Agreement.

EMD Serono may terminate the MDA Agreement at any time with 90 days' prior written notice or upon the inability of the Company to provide EMD Serono access to a specified number of cancer drug targets. Either the Company or EMD Serono has the right to terminate the MDA Agreement based on the other party's uncured material breach or bankruptcy.

***SutroVax, Inc. Supply Agreement – Related Party Transaction***

In May 2018, the Company entered into a Supply Agreement (the "Supply Agreement") with SutroVax, Inc., ("SutroVax"), wherein SutroVax engaged the Company to supply extracts and custom reagents, as requested by SutroVax. The pricing is based on an agreed upon cost plus arrangement. For the six months ended June 30, 2018, the Company recognized \$762,000 in other revenue-related parties under the Supply Agreement.

**6. Loan and Security Agreement**

In August 2017, the Company entered into a loan and security agreement with Oxford Finance LLC ("Oxford") and Silicon Valley Bank ("SVB") under which it borrowed \$15.0 million (the "August 2017 Loan"). The loan is due in 30 monthly installments from March 2019 through its repayment in August 2021, with interest-only monthly payments until March 2019. If certain qualified funding events occur, the loan will be due in 24 monthly installments from September 2019 through its repayment in August 2021, with interest-only payments until September 2019.

The August 2017 Loan is secured by all assets of the Company, excluding intellectual property and certain other assets. The August 2017 Loan contains customary affirmative and restrictive covenants, including with respect to fundamental transactions, the incurrence of additional indebtedness, grant liens, pay any dividend or make any distributions to the Company's holders, make investments, merge or consolidate with any other person, or engage in transactions with its affiliates, but does not include any financial covenants. The loan agreement provides that an event of default will occur if, among other triggers, there occurs any circumstances that could reasonably be expected to result in a material adverse effect on the Company's business, operations or condition, or on its ability to perform its obligations under the loan. The loan agreement also includes customary representations and warranties, other events of default and termination provisions.

The Company disclosed in its audited financial statements as of December 31, 2017 that there was substantial doubt about its ability to continue as a going concern given its continuing operating losses and its current available capital resources, which could be deemed to be an event of default if such condition was considered to have a material adverse effect on the Company's business, operations or condition. As a result, the Company classified the entire debt balance as a current liability as of December 31, 2017 given that a determination of such an event of default is outside of the Company's

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

control. As of June 30, 2018, the Company has classified \$2.0 million of the outstanding debt balance as current and \$12.8 million as non-current, which reflects the scheduled repayment terms under the August 2017 Loan.

The interest charges on the loan will be based on a floating rate that equals the greater of 7.39% or the sum of the 30-day U.S. Dollar London Interbank Offered Rate ("LIBOR") plus 6.40%. In addition, the Company will make a final payment equal to 3.83% of the original principal amount of the loan, or \$574,500, which will be accrued over the term of the loan using the effective-interest method.

In connection with the August 2017 Loan, the Company issued to Oxford and SVB a warrant to purchase 454,820 shares and 227,410 shares, respectively, of Series D-2 redeemable convertible preferred stock at an exercise price of \$0.6596 per share (the "2017 Warrant"). If there is a subsequent convertible preferred stock or other senior equity securities financing with a per share price less than the Series D-2 redeemable convertible preferred per share price, then the warrant shall instead be to purchase such class of shares, based on the per share price of such (see Note 12). In May 2018, the Company raised a total of \$33.4 million in funding through the sale and issuance of 124,840,500 shares of a newly authorized series of preferred stock, Series E redeemable convertible preferred stock, at \$0.2674 per share. Given that the price per share of the Series E redeemable convertible preferred stock was less than the Series D-2 redeemable convertible preferred per share price, the 2017 Warrant converted into a warrant to purchase a total of 1,409,332 shares of Series E redeemable convertible preferred stock at an exercise price of \$0.3193 per share. The warrants were exercisable from the date of issuance and have a 10-year term. The estimated fair value upon issuance of the 2017 Warrant based on Series D-2 convertible preferred stock was \$329,000, which was recorded as redeemable convertible preferred stock warrant liability. The fair value of the warrant at the date of issuance was determined using an Option Pricing Method and was recorded a redeemable convertible preferred stock warrant liability with an offset to debt discount on the associated borrowings on the Company's balance sheet. The debt discount is being amortized to interest expense over the repayment period of the loan using the effective-interest method.

During the six months ended June 30, 2018, the Company recorded interest expense related to this loan and accretion of debt discount of \$784,000.

**7. Related-Party Transactions**

Related party transactions with Celgene, which owned 15.4% and 15.1% of the Company's outstanding equity interest as of December 31, 2017 and June 30, 2018, respectively, are described in Note 5.

Three directors of the Company are performing consulting services for the Company. Subsequent to his appointment to the Company's Board of Directors, the Company paid \$30,000 to one of the directors in each of the six months ended June 30, 2017 and 2018. Additionally, such director was granted options to purchase 356,000 shares of the Company's common stock from 2009 to 2015, at the then-current fair values of the common stock ranging from \$0.12 to \$0.33 per share, related to his consulting services, which vest ratably over four years. As of June 30, 2018, all of such shares were vested. There were not any transaction advisory fees during the six months ended June 30, 2017 and 2018, respectively, paid to a firm of which such director is a managing executive, related to the Celgene agreements. Additional payments, based on a single digit percentage of any future payments, will be made to such transaction advisory firm upon receipt of future payments under the 2017 Celgene Agreement (see Note 5).

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

The Company paid \$15,000 to the second director performing consulting services for the Company in each of the six months ended June 30, 2017 and 2018. Additionally, such director was granted an option to purchase 118,667 shares of the Company's common stock in September 2015 at the then-current fair value of the common stock, related to his consulting services, which vest ratably over four years.

The Company paid \$10,000 and \$15,000 to the third director performing consulting services for the Company in each of the six months ended June 30, 2017 and 2018, respectively.

On August 30, 2010, the Company received a promissory note with recourse from its chief executive officer, which was used to purchase common stock. The principal amount of the note was approximately \$200,000, which accrues interest at 0.53%, compounding semiannually. The note can be prepaid without penalty and is due on August 30, 2019. The note and related interest receivable have been recorded as a component of stockholders' deficit. As of December 31, 2017 and June 30, 2018, the outstanding balance is approximately \$208,000.

***Investment in SutroVax, Inc. ("SutroVax")***

In December 2013, the Company and Johnson & Johnson Innovation, through the Johnson & Johnson Development Corporation, provided initial co-funding for a new company, SutroVax. SutroVax leverages the Company's proprietary integrated cell-free protein synthesis platform, XpressCF, to develop novel vaccines for a broad range of disease targets. The Company had a \$34,000 and \$657,000 receivable due from SutroVax as of December 31, 2017 and June 30, 2018, respectively, which was included in accounts receivable on the balance sheet.

As of December 31, 2017 and June 30, 2018, the Company held a 7.8% and 5.6%, respectively, common stock ownership interest in SutroVax on a fully-diluted basis, with a carrying value of \$0 and was accounted for under the cost method.

SutroVax qualifies as a variable interest entity. However, the Company maintains only shared power to direct the activities that most significantly impact the performance of SutroVax. Therefore, the Company is not considered the primary beneficiary and consolidation is not required.

See Note 5, SutroVax, Inc. Supply Agreement for discussion of the supply arrangement entered into with SutroVax in May 2018 and related revenue recognized for the six months ended June 30, 2018.

In May 2018, the Company entered into amendments to the license agreement with SutroVax, which primarily clarified under certain limited future circumstances SutroVax's ability to manufacture extract pursuant to the license agreement. The Company received a warrant for the purchase of 100,000 shares of SutroVax preferred stock which was valued at \$140,000. The value of warrants received has been recognized as other revenue-related parties during the six months ended June 30, 2018 as there are no remaining deliverables under the license agreement.

**8. Redeemable Convertible Preferred Stock and Stockholder's Deficit**

***Redeemable Convertible Preferred Stock***

In May and June 2018, the Company raised an aggregate total of \$33.4 million in funding through the sale and issuance of 124,840,500 shares of Series E redeemable convertible preferred stock, at

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

\$0.2674 per share (post-split). The Series E redeemable convertible preferred stock per share price was less than the conversion price per share in each of the Company's prior redeemable convertible preferred stock financings, and therefore, each prior conversion price was lowered by applying a broad-based weighted average adjustment. With certain senior rights, preferences and privileges provided for the Series E redeemable convertible preferred stock, all prior series (Series A through Series D-2) of issued redeemable convertible preferred stock will be hereafter referred to collectively as the "Junior Preferred."

Redeemable convertible preferred stock, \$0.001 par value, as of December 31, 2017 consisted of:

	Shares Authorized	Shares Issued and Outstanding	Original Issue Price Per Share	Carrying Value	Liquidation Preference
	(in thousands, except for share and per share amounts)				
Series A	3,503,692	3,503,692	\$ 0.5900	\$ 1,992	\$ 2,067
Series B	24,515,966	24,345,936	0.8822	19,865	21,478
Series C	78,582,049	76,102,337	0.4797	38,035	36,506
Series C-2	8,338,892	8,338,892	0.5996	4,845	5,000
Series D	43,362,233	43,362,233	0.5996	25,900	26,000
Series D-2	18,779,561	18,097,331	0.6596	11,868	11,937
Balance at December 31, 2017	<u>177,082,393</u>	<u>173,750,421</u>		<u>\$ 102,505</u>	<u>\$ 102,988</u>

Redeemable convertible preferred stock, \$0.001 par value, as of June 30, 2018 consisted of:

	Shares Authorized	Shares Issued and Outstanding	Original Issue Price Per Share	Carrying Value	Liquidation Preference
	(in thousands, except for share and per share amounts)				
Series A	3,503,692	3,503,692	\$ 0.5900	\$ 1,992	\$ 2,067
Series B	24,515,966	24,345,936	0.8822	19,865	21,478
Series C	78,582,049	76,102,337	0.4797	38,035	36,506
Series C-2	8,338,892	8,338,892	0.5996	4,845	5,000
Series D	43,362,233	43,362,233	0.5996	25,900	26,000
Series D-2	18,779,561	18,097,331	0.6596	11,868	11,937
Series E	189,320,388	124,840,500	0.2674	33,215	33,382
Balance at June 30, 2018	<u>366,402,781</u>	<u>298,590,921</u>		<u>\$ 135,720</u>	<u>\$ 136,370</u>

The significant rights, preferences and privileges of the redeemable convertible preferred stock are as follows:

*Redemption*

At the election of the holders of a majority of the then-outstanding shares of preferred stock, voting together as a single class on an as-converted to common stock basis, the Company will redeem all outstanding shares of preferred stock in three equal annual installments commencing May 18, 2023, by paying in cash an amount per share equal to the original issuance prices of \$0.59 per share of Series A redeemable convertible preferred stock, \$0.8822 per share of Series B redeemable convertible preferred stock, \$0.4797 per share of Series C redeemable convertible preferred stock, \$0.5996 per

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

share of Series C-2 redeemable convertible preferred stock, \$0.5996 per share of Series D redeemable convertible preferred stock, \$0.6596 per share of Series D-2 redeemable convertible preferred stock, and \$0.2674 per share of Series E redeemable convertible preferred stock, plus 8% of the applicable original issuance prices per annum calculated from the original issuance date of each share of preferred stock. If funds legally available for redemption of the preferred stock are insufficient to pay such holders the full redemption prices, the Company will effect such redemption first to the holders of Series E redeemable convertible preferred stock, until the related redemption price has been paid in full, and second to the Junior Preferred holders, pro rata among such holders, based on a formula.

Additionally, all shares of preferred stock are redeemable in the event of a change in control or sale of substantially all of the assets of the Company. As certain redemption events are outside the control of the Company, all preferred stock amounts have been presented outside of stockholders' deficit.

The carrying value of the redeemable convertible preferred stock has not been accredited up to its redemption value as no redemption events are considered probable as of June 30, 2018.

*Dividends*

The holders of preferred stock are entitled to receive, when and as declared by the Board of Directors, dividends at the per annum rate of \$0.0472 per share of Series A redeemable convertible preferred stock, \$0.07056 per share of Series B redeemable convertible preferred stock, \$0.03838 per share of Series C redeemable convertible preferred stock, \$0.048 per share of Series C-2 redeemable convertible preferred stock, \$0.048 per share of Series D redeemable convertible preferred stock, \$0.0528 per share of Series D-2 redeemable convertible preferred stock, and \$0.0214 per share of Series E redeemable convertible preferred stock, prior and in preference to any declaration or payment of a dividend to the common stockholders. Additionally, the holders of Series E redeemable convertible preferred stock are entitled to receive dividends prior and in preference to Junior Preferred holders and holders of common stock of the Company. Payment of any dividends to the Junior Preferred holders shall be on a pro rata, pari passu basis in proportion to the dividend rates set forth above for each series of Junior Preferred stock. Such dividends are not cumulative, and no right to such dividends shall accrue to holders of the preferred stock unless declared by the Board of Directors. Following payment of these dividends to the preferred stockholders, any additional dividends will be payable to the holders of the Company's common and preferred stock on an as-if-converted-to-common-stock basis. No dividends have been declared to date.

*Liquidation*

In the event of any liquidation, dissolution, or winding up of the Company, either voluntary or involuntary, the holders of Series E redeemable convertible preferred stock are entitled to receive any distribution of assets or surplus funds in an amount equal to the original issuance price of the Series E redeemable convertible preferred stock (as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events) and all declared but unpaid dividends, if any, prior and in preference to Junior Preferred holders and holders of common stock of the Company. Junior Preferred holders shall be entitled to receive pro rata, prior and in preference to any distribution to the holders of the common stock, an amount equal to the original issuance prices of each series (in each case, as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events) and all declared but unpaid dividends, if any.

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

After giving effect to the liquidation preferences noted above, all of the remaining assets of the Company shall be distributed to the holders of preferred stock and common stock pro rata based on the number of shares of common stock held by each such holder, treating, for this purpose, all such securities as if they had been converted to common stock immediately prior to the liquidation event. However, if the aggregate amount that the holders of preferred stock are entitled to receive exceeds two times the applicable original issuance prices per share for such series of preferred stock plus any dividends declared but unpaid thereon (the "Maximum Participation Amount"), each holder of preferred stock shall be entitled to receive upon such liquidation the greater of (i) the Maximum Participation Amount and (ii) the amount such holder would have received if all shares of such series of preferred stock had been converted into common stock immediately prior to the liquidation event.

Unless the holders of a majority of the then-outstanding shares of preferred stock, voting together as a single class on an as-converted to common stock basis, elect otherwise, any of the following events shall be treated as a liquidation: (i) any consolidation, merger, acquisition, or any other corporate reorganization in which the stockholders of the Company immediately prior to such event own less than 50% of the voting power of the surviving or successor entity or its parent immediately after such event; (ii) any transaction or series of related transactions in which in excess of 50% of the Company's voting power is transferred; or (iii) any sale, lease, transfer, exclusive license, or other disposition of all or substantially all of the assets of the Company.

*Voting*

Each share of redeemable convertible preferred stock is entitled to voting rights equivalent to the number of shares of common stock into which each share can be converted.

The holders of Series E redeemable convertible preferred stock are entitled to elect one director of the Company, the holders of Series C redeemable convertible preferred stock are entitled to elect two directors of the Company, and the holders of Series A redeemable convertible preferred stock and Series B redeemable convertible preferred stock are each entitled to elect one director of the Company. Additionally, holders of common stock are entitled to elect one director of the Company, and all stockholders can elect the balance of the total number of directors of the Company.

*Conversion*

The conversion price as of June 30, 2018 of each series of redeemable convertible preferred stock listed below is subject to adjustment upon certain dilutive events, including in the event the Company issues certain additional equity securities at a purchase price less than the current conversion price.

Each share of Series E redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.2674 by the Series E redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series E redeemable convertible preferred stock conversion price as of June 30, 2018 is \$0.2674 per share of common stock. The Series E redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events. As of June 30, 2018, each share of Series E redeemable convertible preferred stock will convert into common stock on a 1-for-1 basis.

Each share of Series D-2 redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.6596 by the Series D-2 redeemable convertible preferred stock conversion

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

price in effect at the time of conversion. The Series D-2 redeemable convertible preferred stock conversion price as of June 30, 2018 is \$0.5550 per share of common stock. The Series D-2 redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events. As of June 30, 2018, each share of Series D-2 redeemable convertible preferred stock will convert into common stock on a 1-for-1.1885 basis.

Each share of Series D redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.5996 by the Series D redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series D redeemable convertible preferred stock conversion price as of June 30, 2018 is \$0.5134 per share of common stock. The Series D redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events. As of June 30, 2018, each share of Series D redeemable convertible preferred stock will convert into common stock on a 1-for-1.1679 basis.

Each share of Series C-2 redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.5996 by the Series C-2 redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series C-2 redeemable convertible preferred stock conversion price as of June 30, 2018 is \$0.5134 per share of common stock. The Series C-2 redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events. As of June 30, 2018, each share of Series C-2 redeemable convertible preferred stock will convert into common stock on a 1-for-1.1679 basis.

Each share of Series C redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.4797 by the Series C redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series C redeemable convertible preferred stock conversion price as of June 30, 2018 is \$0.4304 per share of common stock. The Series C redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events. As of June 30, 2018, each share of Series C redeemable convertible preferred stock will convert into common stock on a 1-for-1.1145 basis.

Each share of Series B redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.8822 by the Series B redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series B redeemable convertible preferred stock conversion price as of June 30, 2018 is \$0.5333 per share of common stock. The Series B redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events. As of June 30, 2018, each share of Series B redeemable convertible preferred stock will convert into common stock on a 1-for-1.6542 basis.

Each share of Series A redeemable convertible preferred stock shall be convertible, at the option of the holder thereof, into such number of fully paid and nonassessable shares of common stock as is determined by dividing \$0.59 by the Series A redeemable convertible preferred stock conversion price in effect at the time of conversion. The Series A redeemable convertible preferred stock conversion price as of June 30, 2018 is \$0.4602 per share of common stock. The Series A redeemable convertible preferred stock conversion price is subject to adjustment upon certain dilutive events. As of June 30,



**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

2018, each share of Series A redeemable convertible preferred stock will convert into common stock on a 1-for-1.2821 basis.

As discussed in Note 12, in July 2018 the Company issued additional shares of Series E redeemable convertible preferred stock at a price per share that is less than the conversion price of each of the prior issued shares of redeemable convertible preferred stock. Therefore, each prior conversion price was lowered, and the previously issued Series E redeemable convertible preferred stock was split, by the applicable adjustment.

Each share of redeemable convertible preferred stock shall automatically be converted into shares of common stock at the then-effective rate applicable to voluntary conversion as described above, upon either (i) the completion of an underwritten public offering at a price of not less than \$0.4011 per share (as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events) that results in at least \$50.0 million in net cash proceeds. In addition, each share of Junior Preferred shall automatically be converted into shares of common stock at the then-effective conversion rate for such series upon the written election of the holders of a majority of the then-outstanding Junior Preferred, voting or consenting together as a single class on an as-converted to common stock basis; and each share of Series E redeemable convertible preferred stock shall automatically be converted into shares of common stock at the then-effective conversion rate for such series upon the written election of the holders of a majority of the then-outstanding Series E redeemable convertible preferred stock, voting separately as a single class.

***Warrants***

During the period from 2008 to 2012, the Company issued various warrants for the purchase of redeemable convertible preferred stock in connection with debt financings and the issuance of redeemable convertible preferred stock.

In August 2017, the Company issued warrants to Oxford and SVB to purchase an aggregate of 682,230 shares of Series D-2 redeemable convertible preferred stock at an exercise price of \$0.6596 per share in connection with the issuance of August 2017 Loan (see Note 6). If there is a subsequent convertible preferred stock or other senior equity securities financing with a per share price less than the Series D-2 redeemable convertible preferred per share price, then the warrant shall automatically convert to a warrant to purchase such class of shares, based on the per share price of such equity (see Note 12). Given that the price per share of the Series E redeemable convertible preferred stock described above was less than the price per share of the Series D-2 redeemable convertible preferred stock, the 2017 Warrant converted into a warrant to purchase a total of 1,409,332 shares of Series E redeemable convertible preferred stock at an exercise price of \$0.3193 per share. The warrant is exercisable from the original date of issuance and has a 10-year term.

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

As of December 31, 2017 and June 30, 2018, the warrants outstanding and exercisable were as follows:

Stock	Expiration Date	Exercise Price Per Share	Shares as of		Estimated Fair Value as of	
			December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018
(in thousands, except for share and per share amounts)						
Series B redeemable convertible preferred	June 2018	\$ 0.8822	170,030	—	\$ 116	\$ —
Series C redeemable convertible preferred(1)	July 2020 – June 2022	\$ 0.4797	2,479,712	2,479,712	1,263	523
Series D-2 redeemable convertible preferred	August 2027	\$ 0.6596	682,230	—	329	—
Series E redeemable convertible preferred	August 2027	\$ 0.3193	—	1,409,332	—	278
<b>Total</b>					<b>\$ 1,708</b>	<b>\$ 801</b>

- (1) 1,791,784 of the Series C redeemable convertible preferred warrants expire at the earlier of (i) the tenth anniversary of issuance; (ii) the consummation of certain change of control events; or (iii) upon the completion of an IPO of the Company's common stock.

The warrants were valued using the Option Pricing Method and were estimated using the following assumptions:

	Six Months Ended June 30,	
	2017	2018
Average expected life (in years)	2.5	2.0
Expected volatility	84.7%	63.00%
Risk-free interest rate	0.83%	2.4%
Expected dividend	—	—

**Common Stock**

Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders of the Company.

As of June 30, 2018, the Company had reserved common stock, on an if-converted basis, for issuance as follows:

Redeemable convertible preferred stock	336,312,088
Common stock options issued and outstanding	29,804,074
Remaining shares reserved for issuance under 2004 equity incentive plan	61,410,868
Warrants to purchase redeemable convertible preferred stock	4,172,966
Warrants to purchase common stock	40,000
<b>Total</b>	<b>431,739,996</b>

**Sutro Biopharma, Inc.**  
**Notes to Unaudited Interim Condensed Financial Statements**

**9. Stock Options**

The following table summarizes option activity under the Company's 2004 Equity Incentive Plan (the "Plan"):

	Shares Available for Grant	Outstanding Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Balances at December 31, 2017	3,308,488	30,329,406	\$ 0.28	6.84	\$ 3,813
Increase in authorized shares	58,087,701	—	—		
Granted	(70,000)	70,000	\$ 0.41		
Exercised	—	(510,653)	\$ 0.15		
Canceled	84,679	(84,679)	\$ 0.37		
Balances at June 30, 2018	61,410,868	29,804,074	\$ 0.29	6.43	\$ 3,674
Exercisable at June 30, 2018		22,413,374		5.94	\$ 3,370
Vested and expected to vest at June 30, 2018		28,981,381		6.39	\$ 3,639

The aggregate intrinsic value was calculated as the difference between the exercise prices of the underlying stock option awards and the estimated fair value of the Company's common stock on the date of exercise. For the six months ended June 30, 2017 and 2018, the aggregate intrinsic value of stock options exercised was \$43,000 and \$135,000, respectively, determined at the date of the option exercise.

**Employee Stock Options Valuation**

For determining stock-based compensation expense, the fair-value-based measurement of each employee stock option was estimated as of the date of grant using the Black-Scholes option-pricing model with assumptions as follows:

	Six Months Ended June 30,	
	2017	2018
Expected term (in years)	5.5 - 6.0	6.0
Expected volatility	57.71% - 58.55%	56.34% - 56.44%
Risk-free interest rate	1.94% - 2.10%	2.72 - 2.73%
Expected dividend	—	—

Using the Black-Scholes option-valuation model, the weighted-average estimated grant-date fair value of employee stock options granted during the six months ended June 30, 2017 and 2018, was \$0.20 and \$0.23 per share, respectively. The total fair value of options vested during the six months ended June 30, 2017 and 2018, was \$776,000 and \$455,000, respectively.

**Non-Employee Stock-Based Compensation Expense**

The Company remeasures the estimated fair value of the unvested portion of the award each period, until the award is fully vested. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of services received. The fair value of options granted to

**Sutro Biopharma, Inc.****Notes to Unaudited Interim Condensed Financial Statements**

non-employees was estimated using the Black-Scholes method. The stock-based compensation expense related to non-employees for the six months ended June 30, 2017 and 2018, was \$39,000 and \$20,000, respectively.

**Stock-Based Compensation Expense**

Total stock-based compensation expense recognized was as follows:

	Six Months Ended June 30,	
	2017	2018
	(in thousands)	
Research and development	\$ 72	\$ 95
General and administrative	461	386
Total	<u>\$ 533</u>	<u>\$ 481</u>

As of June 30, 2018, there was approximately \$1.3 million of total unrecognized compensation cost related to the unvested stock options granted under the Company's Plan. The remaining unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.9 years.

**Early Exercise of Options**

Certain stock options granted under the Company's stock option Plan provide option holders the right to elect to exercise unvested options in exchange for restricted common stock. A summary of the restricted stock shares issued under the Company's Plan is as follows:

	Shares
Balance as of December 31, 2017	85,681
Vested	<u>(85,681)</u>
Balance as of June 30, 2018	<u>—</u>

The shares are subject to repurchase by the Company at the original exercise price in the event the optionee's employment is terminated either voluntarily or involuntarily. The repurchase right to these shares generally lapses 25% after one year, and the remainder lapses ratably over three years thereafter. The Company treats cash received from the exercise of unvested options as a refundable deposit, shown as a liability in its balance sheets. As of December 31, 2017 and June 30, 2018, the Company included cash received for the early exercise of options of approximately \$14,000 and zero, respectively, which is included in other noncurrent liabilities. Amounts are transferred from liabilities into common stock and additional paid-in-capital as the shares vest.

**2017 Call Option Plan**

In February 2017, the Company adopted a 2017 Call Option Plan to grant selected employees, officers, directors and consultants (collectively, the "Participants") options to purchase shares of the common stock of SutroVax, an unconsolidated investee of the Company (see Note 7). The Company has reserved 450,000 shares of SutroVax common stock as of June 30, 2018 for issuance under the program. The call options vest 25% on each of January 1, 2017, 2018, 2019, and 2020, and expire one year from the vesting date.

Using the Black-Scholes option-valuation model, the call options are measured at fair value on grant date and at each reporting period prior to their vesting, with cost recognized over the requisite

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

service period as compensation cost. Any changes in the fair value subsequent to the vesting date are recognized in other income (expense), net in the statement of operations. Call options covering 420,000 shares have been granted with an exercise price of \$0.76 per share, with 105,000 shares vested and exercised during the year ended December 31, 2017. Call options covering 315,000 shares were outstanding and 210,000 shares were unvested as of June 30, 2018. The amounts recognized as compensation expense and other income (expense) related to the 2017 Call Option Plan were \$50,000 and (\$16,000), respectively, for the six months ended June 30, 2017 and \$31,000 and \$4,000, respectively, for the six months ended June 30, 2018.

**10. Net Loss Per Share**

The following table sets forth the computation of the Company's basic and diluted net loss per share.

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2018</b>
<b>(in thousands, except share and per share amounts)</b>		
<b>Numerator:</b>		
Net loss, basic and diluted	\$ (2,926)	\$ (23,587)
<b>Denominator:</b>		
Shares used in computing net loss per share , basic and diluted	16,015,593	17,162,459
Net loss per share, basic and diluted	\$ (0.18)	\$ (1.37)

The following common stock equivalents were excluded from the computation of diluted net loss per share for the periods ended June 30, 2017 and 2018, because including them would have been antidilutive:

	<b>As of June 30,</b>	
	<b>2017</b>	<b>2018</b>
Redeemable convertible preferred stock (as converted)	184,039,855	336,312,088
Options to purchase common stock	29,521,200	29,804,074
Warrants to purchase redeemable convertible preferred stock (as converted)	2,718,452	4,172,966
Warrants to purchase common stock	40,000	40,000
Early exercised shares of common stock	342,724	—
Total	216,662,231	370,329,128

**Unaudited Pro Forma Net Loss Per Share**

Pro forma basic and diluted net loss per share of common stock have been computed to give effect to the assumed conversion of the redeemable convertible preferred stock, the assumed net exercise of certain redeemable convertible preferred stock warrants and common stock warrants and the assumed conversion of the remaining redeemable convertible preferred stock warrants into common stock warrants upon the completion of a qualifying IPO of the Company's common stock. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains or losses resulting from the remeasurement of the redeemable convertible preferred stock warrant liability.

**Sutro Biopharma, Inc.****Notes to Unaudited Interim Condensed Financial Statements**

The following table sets forth the computation of the Company's pro forma basic and diluted net loss per share of common stock.

	<b>Six Months Ended June 30, 2018</b>
<b>Numerator:</b>	
Net loss	\$
Change in fair value of redeemable convertible preferred stock warrant liability	_____
Pro forma net loss, basic and diluted	\$ _____
<b>Denominator:</b>	
Weighted-average common shares used in net loss per share, basic and diluted	
Pro forma adjustment to reflect assumed cashless exercise of certain redeemable convertible preferred stock warrants and common stock warrants	_____
Pro forma adjustment to reflect assumed conversion of redeemable convertible preferred stock	_____
Pro forma weighted-average shares of common stock, basic and diluted	_____
Pro forma net loss per share, basic and diluted	\$ _____

**11. Income Taxes**

For the six months ended June 30, 2017 and 2018, the Company did not record an income tax provision. The U.S. federal deferred tax assets generated from the Company's net operating losses have been fully reserved, as the Company believes it is not more likely than not that the benefit will be realized. In December 2017, the 2017 Tax Cuts and Jobs Act (2017 Tax Act) was enacted and includes a broad range of provisions, many of which differ significantly from those contained in previous U.S. tax law. Changes in tax law are accounted for in the period of enactment. As such, the Company's financial statements reflect the impact of this 2017 Tax Act, which primarily consisted of measuring the Company's deferred tax assets and valuation allowance using the newly enacted U.S. corporate tax rate.

The SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which allows companies to record provisional amounts during a measurement period not to extend more than one year beyond the Act enactment date. Since the 2017 Tax Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation are expected during the year, the Company considers the accounting for deferred tax remeasurements and other provisions to be incomplete. There have been no material changes to the provisional adjustments disclosed in the Company's 2017 financials. The Company is continuing to evaluate the estimates used to record and disclose the effects of the 2017 Tax Act.

**12. Subsequent Events**

In July 2018, the Company raised \$52.0 million in funding through the sale and issuance of 194,465,218 shares of Series E redeemable convertible preferred stock, at \$0.2674 per share. The Series E redeemable convertible preferred stock per share price and shares issued in the May and June 2018 closings of the Series E redeemable convertible preferred stock financing described in Note 8 were adjusted by means of a stock split to reflect the lower price per share in the July 2018 closing of the Series E redeemable convertible preferred stock financing. Accordingly, with

**Sutro Biopharma, Inc.**

**Notes to Unaudited Interim Condensed Financial Statements**

consideration of the May, June and July 2018 Series E redeemable convertible preferred stock combined funding, the Company raised a total of \$85.4 million through the sale and issuance of 319,305,718 shares of Series E redeemable convertible preferred stock at \$0.2674 per share. The Series E redeemable convertible preferred stock per share price was less than the conversion price per share in each of the Company's prior Junior Preferred stock financings, and therefore, each prior conversion price was lowered by applying a broad-based weighted average adjustment. The Series A redeemable convertible preferred stock will convert at a ratio of 1:1.5708, the Series B redeemable convertible preferred stock will convert at a ratio of 1:2.0990, the Series C redeemable convertible preferred stock will convert at a ratio of 1:1.3426, the Series C-2 redeemable convertible preferred stock will convert at a ratio of 1:1.4692, the Series D redeemable convertible stock will convert at a ratio of 1:1.4692, the Series D-2 redeemable convertible preferred stock will convert at a ratio of 1:1.5212 and the Series E redeemable convertible preferred stock will convert at a ratio of 1:1. Additionally, in connection with the August 2017 Loan, the Company issued to each of Oxford and SVB a warrant to purchase 454,820 shares and 227,410 shares, respectively, of Series D-2 redeemable convertible preferred stock at an exercise price of \$0.6596 per share (the "2017 Warrants"). Given that the price per share of the Series E redeemable convertible preferred stock was less than the price per share of the Series D-2 redeemable convertible preferred stock, the 2017 Warrants converted into warrants to purchase a total of 1,682,871 shares of Series E redeemable convertible preferred stock at an exercise price of \$0.2674 per share.

In July 2018, the Company entered into an Exclusive Patent License and Research Collaboration Agreement (the "2018 Merck Agreement") with Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ, USA ("Merck") to jointly develop up to three research programs focusing on cytokine derivatives for cancer and autoimmune disorders.

Under the 2018 Merck Agreement, the Company received from Merck an upfront payment of \$60.0 million in August 2018 for the research and development of two target programs, with an option for a third program upon the payment of an additional amount. The Company is also eligible to receive aggregate milestone payments of up to \$1.6 billion, assuming the development and sale of all therapeutic candidates and all possible indications identified under the collaboration. If one or more products from each of the target programs are developed for non-oncology or a single indication, we will be eligible for reduced aggregate milestone payments. In addition, the Company is eligible to receive tiered royalties ranging from mid-single digit to low teen percentages on the worldwide sales of any commercial products that may result from the collaboration. Additionally, Merck purchased \$20.0 million in Series E redeemable convertible preferred stock from the Company and has agreed to purchase up to \$10.0 million of common stock concurrently with the Company's planned IPO.

In August 2018, the promissory note due from the Company's chief executive officer was repaid. The Company received approximately \$208,000 as payment for the principal balance and interest receivable.

**Shares**



**Common Stock**

---

**PROSPECTUS**

---

*Joint Book-running Managers*

**Cowen**

**Piper Jaffray**

*Co-managers*

**JMP Securities**

**Wedbush PacGrow**

, 2018

---



**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, paid or payable by the Registrant in connection with the sale of the common stock being registered. All amounts shown are estimates except for the Securities and Exchange Commission, or SEC, registration fee, the Financial Industry Regulatory Approval, or FINRA, filing fee and the Nasdaq Global Market listing fee:

	<b>Amount Paid or To Be Paid</b>
SEC registration fee	\$ 9,338
FINRA filing fee	11,750
The Nasdaq Global Market listing fee	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky, qualification fees and expenses	*
Transfer agent and registrar fees and expenses	*
Miscellaneous expenses	*
Total	<u>\$ *</u>

\* To be completed by amendment.

**ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Section 145 of the Delaware General Corporation Law, or DGCL, authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers under certain circumstances and subject to certain limitations. The terms of Section 145 of the DGCL are sufficiently broad to permit indemnification under certain circumstances for liabilities, including reimbursement of expenses incurred, arising under the Securities Act of 1933, as amended, or the Securities Act.

As permitted by the DGCL, the Registrant's restated certificate of incorporation to be effective in connection with the completion of this offering contains provisions that eliminate the personal liability of its directors for monetary damages for any breach of fiduciary duties as a director, except liability for the following:

- any breach of the director's duty of loyalty to the Registrant or its stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- under Section 174 of the DGCL (regarding unlawful dividends and stock purchases); or
- any transaction from which the director derived an improper personal benefit.

As permitted by the DGCL, the Registrant's restated bylaws to be effective in connection with the completion of this offering, provide that:

- the Registrant is required to indemnify its directors and executive officers to the fullest extent permitted by the DGCL, subject to limited exceptions;
- the Registrant may indemnify its other employees and agents as set forth in the DGCL;

---

## Table of Contents

- the Registrant is required to advance expenses, as incurred, to its directors and executive officers in connection with a legal proceeding to the fullest extent permitted by the DGCL, subject to limited exceptions; and
- the rights conferred in the restated bylaws are not exclusive.

Prior to the completion of this offering, the Registrant intends to enter into indemnification agreements with each of its current directors and executive officers to provide these directors and executive officers additional contractual assurances regarding the scope of the indemnification set forth in the Registrant's restated certificate of incorporation and restated bylaws and to provide additional procedural protections. There is no pending litigation or proceeding involving a director or executive officer of the Registrant for which indemnification is sought. Reference is also made to the underwriting agreement to be filed as Exhibit 1.1 to this registration statement, which provides for the indemnification of executive officers, directors and controlling persons of the Registrant against certain liabilities. The indemnification provisions in the Registrant's restated certificate of incorporation, restated bylaws and the indemnification agreements entered into or to be entered into between the Registrant and each of its directors and executive officers may be sufficiently broad to permit indemnification of the Registrant's directors and executive officers for liabilities arising under the Securities Act.

The Registrant has directors' and officers' liability insurance for securities matters.

### **ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.**

The following lists set forth information regarding all securities sold or granted by the Registrant from August 27, 2015 through August 27, 2018 that were not registered under the Securities Act, and the consideration, if any, received by the Registrant for such securities:

#### ***(a) Stock Option Grants***

From August 27, 2015 through August 27, 2018, the Registrant has granted to its employees, directors, consultants and other service providers options to purchase an aggregate of 18,824,779 shares of common stock under its 2004 Stock Plan, or 2004 Plan, with exercise prices ranging from \$0.33 to \$0.41 per share.

From August 27, 2015 through August 27, 2018, employees, directors, consultants and other service providers of the Registrant exercised options granted under the 2004 Plan for an aggregate of 2,599,774 shares of common stock with exercise prices ranging from \$0.05 to \$0.41 per share for an aggregate exercise price of \$439,678.86.

#### ***(b) Warrants to Purchase Preferred Stock***

In August 2017, the Registrant issued to two accredited investors warrants to purchase an aggregate of 682,230 shares of the Registrant's Series D-2 redeemable convertible preferred stock at a per share exercise price of \$0.6596, for an aggregate consideration of approximately \$450,000. In connection with the July 2018 closing of the Series E redeemable convertible preferred stock financing, these warrants converted into warrants to purchase a total of 1,682,871 shares of Series E redeemable convertible preferred stock at an exercise price of \$0.2674 per share. These warrants will convert into warrants to receive shares of the Registrant's common stock upon the completion of this offering.

#### ***(c) Preferred Stock***

In May and June 2018, the Registrant issued and sold to eight accredited investors an aggregate of 104,548,547 shares of Series E redeemable convertible preferred stock, which converted into 124,840,500 shares of Series E redeemable convertible preferred stock following the 1-for-1.1940912491

## Table of Contents

forward stock split of Series E redeemable convertible preferred stock effected on July 26, 2018, at a purchase price of \$0.3193 per share (\$0.2674 post-split), for aggregate consideration of approximately \$33,382,351. In July 2018, the Registrant issued and sold to six accredited investors an aggregate of 194,465,218 shares of Series E redeemable convertible preferred stock, at a purchase price of \$0.2674 per share, for aggregate consideration of approximately \$51,999,999. In connection with the completion of this offering, these shares of Series E redeemable convertible preferred stock will convert into 319,305,718 shares of the Registrant's common stock.

Unless otherwise stated, the sales of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act (or Regulation D or Regulation S promulgated thereunder), or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed on the stock certificates issued in each of the foregoing transactions.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions or any public offering, and the Registrant believes each transaction was exempt from the registration requirements of the Securities Act as stated above. All recipients of the foregoing transactions either received adequate information about the Registrant or had access, through their relationships with the Registrant, to such information. Furthermore, the Registrant affixed appropriate legends to the share certificates and instruments issued in each foregoing transaction setting forth that the securities had not been registered and the applicable restrictions on transfer.

### **ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a) Exhibits.

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1*	Form of Underwriting Agreement.
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation, as amended to date, as currently in effect.</u></a>
3.2*	Form of Restated Certificate of Incorporation to be effective upon the completion of this offering.
3.3	<a href="#"><u>Amended and Restated Bylaws, as amended to date, as currently in effect.</u></a>
3.4*	Form of Restated Bylaws to be effective upon the completion of this offering.
4.1	<a href="#"><u>Form of Common Stock Certificate.</u></a>
4.2a	<a href="#"><u>Third Amended and Restated Investors' Rights Agreement, dated May 24, 2018, by and among the Registrant and certain of its stockholders.</u></a>
4.2b	<a href="#"><u>Omnibus Amendment Agreement, dated July 26, 2018, by and among the Registrant and certain of its stockholders.</u></a>
4.3	<a href="#"><u>Form of Warrant to Purchase Shares of Common Stock.</u></a>
4.4	<a href="#"><u>Forms of Warrant to Purchase Series C Redeemable Convertible Preferred Stock.</u></a>
4.5	<a href="#"><u>Form of Warrant to Purchase Series D-2 Redeemable Convertible Preferred Stock.</u></a>

## Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
5.1*	Opinion of Fenwick & West LLP.
10.1*	Form of Indemnity Agreement.
10.2	<a href="#">2004 Stock Plan, as amended, and forms of award agreements.</a>
10.3	<a href="#">2017 Call Option Plan and forms of award agreements.</a>
10.4*	2018 Equity Incentive Plan, to become effective on the date immediately prior to the date the registration statement is declared effective, and forms of award agreements.
10.5*	2018 Employee Stock Purchase Plan, to become effective on the date the registration statement is declared effective, and forms of award agreements.
10.6	<a href="#">Offer Letter, dated December 29, 2008, by and between the Registrant and William J. Newell, as amended.</a>
10.7	<a href="#">Offer Letter, dated December 11, 2015, by and between the Registrant and Arturo Molina, as amended.</a>
10.8	<a href="#">Offer Letter, dated November 12, 2010, by and between the Registrant and Trevor Hallam, as amended.</a>
10.9	<a href="#">Edgewater Business Park Lease, dated May 18, 2016, by and between the Registrant and HCP, Inc.</a>
10.10	<a href="#">Standard Industrial/Commercial Multi-Tenant Lease-Net, dated May 18, 2011, by and between the Registrant and Lydia Tseng and/or Alemany Plaza LLC, as amended.</a>
10.11*†	Amended and Restated Collaboration and License Agreement, dated August 2, 2017, by and among Celgene Corporation, Celgene Alpine Investment Company II, LLC, and the Registrant, as amended.
10.12†	<a href="#">License Agreement, dated September 16, 2014, by and between Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name “EMD Serono”) and the Registrant, as amended.</a>
10.13*†	Amended and Restated Exclusive Agreement, dated October 3, 2007, between The Board of Trustees of Leland Stanford Junior University and Fundamental Applied Biology, Inc., as amended.
10.14	<a href="#">Loan and Security Agreement, dated August 4, 2017, among Oxford Finance LLC, Silicon Valley Bank, and the Registrant.</a>
10.15*†	Exclusive Patent License and Research Collaboration Agreement, dated July 23, 2018, by and between the Registrant and Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc., Kenilworth, NJ.
10.16	<a href="#">Common Stock Purchase Agreement, dated July 23, 2018, by and between the Registrant and Merck Sharp &amp; Dohme Corp., a subsidiary of Merck &amp; Co., Inc., Kenilworth, NJ.</a>
21.1	<a href="#">Subsidiaries of the Registrant.</a>
23.1	<a href="#">Consent of Ernst &amp; Young LLP, an independent registered public accounting firm.</a>
23.2*	Consent of Fenwick & West LLP (included in Exhibit 5.1).
24.1	<a href="#">Power of Attorney (included in the signature page to this registration statement).</a>

\* To be filed by amendment.

† Registrant has omitted and filed separately with the SEC portions of the exhibit pursuant to a confidential treatment request under Rule 406 promulgated under the Securities Act.

---

[Table of Contents](#)

(b) Financial Statement Schedules.

No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or notes.

**ITEM 17. UNDERTAKINGS.**

The undersigned Registrant hereby undertakes to provide to the underwriters at the completion specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of South San Francisco, State of California, on the 29<sup>th</sup> day of August, 2018.

SUTRO BIOPHARMA, INC.

By: /s/ William J. Newell  
William J. Newell  
Chief Executive Officer

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints William Newell and Edward Albini, and each of them, as his true and lawful attorneys-in-fact, proxies and agents, each with full power of substitution and resubstitution and full power to act without the other, for him in any and all capacities, to sign any and all amendments to this registration statement (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, proxies and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, proxies and agents, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William J. Newell</u> William J. Newell	Chief Executive Officer (Principal Executive Officer)	August 29, 2018
<u>/s/ Edward Albini</u> Edward Albini	Chief Financial Officer (Principal Accounting and Financial Officer)	August 29, 2018
<u>/s/ Michael Dybbs, Ph.D.</u> Michael Dybbs, Ph.D.	Director	August 29, 2018
<u>/s/ John G. Freund, M.D.</u> John G. Freund, M.D.	Director	August 29, 2018
<u>/s/ Daniel Janney</u> Daniel Janney	Director	August 29, 2018
<u>/s/ V. Bryan Lawlis, Ph.D.</u> V. Bryan Lawlis, Ph.D.	Director	August 29, 2018
<u>/s/ Joseph M. Lobacki</u> Joseph M. Lobacki	Director	August 29, 2018

---

[Table of Contents](#)

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Daniel H. Petree</u> Daniel H. Petree	Director	August 29, 2018
<u>/s/ Michael Ross, Ph.D.</u> Michael Ross, Ph.D.	Director	August 29, 2018
<u>/s/ Armen B. Shanafelt, Ph.D.</u> Armen B. Shanafelt, Ph.D.	Director	August 29, 2018

**EIGHTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF SUTRO BIOPHARMA, INC.**

Sutro Biopharma, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

A. The name of the corporation is Sutro Biopharma, Inc. The original Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on April 21, 2003 under the name Fundamental Applied Biology, Inc.

B. This Eighth Amended and Restated Certificate of Incorporation has been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the Board of Directors and the stockholders of the corporation.

C. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware (the "DGCL"), this Eighth Amended and Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Seventh Amended and Restated Certificate of Incorporation of this corporation.

D. The text of the Seventh Amended and Restated Certificate of Incorporation is hereby amended and restated in its entirety to read as follows:

ARTICLE I.

The name of the corporation is Sutro Biopharma, Inc. (the "Company").

ARTICLE II.

The address of the Company's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III.

The purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV.

Effective immediately upon the filing of this Eighth Amended and Restated Certificate of Incorporation (this "Certificate of Incorporation") with the Secretary of State of Delaware (the "Effective Time"), each share of the Series E Preferred Stock of the Company (the "Series E Preferred Stock") issued and outstanding immediately prior to the Effective Time will be reclassified as and changed into 1.1940912491 shares of Series E Preferred Stock. This reclassification of the shares of Series E Preferred Stock issued and outstanding prior to the



Effective Time (collectively, "**Old Stock**") shall be referred to collectively as the "**Stock Split**." The Stock Split shall occur without any further action on the part of the Company or the holders of Series E Preferred Stock issued and outstanding following the Effective Time (collectively, "**New Stock**") and whether or not certificates representing such holders' shares prior to the Stock Split are surrendered for cancellation. All certificates dated as of a date prior to the Effective Time representing outstanding shares of Old Stock shall, after the Effective Time, represent the same number of shares of New Stock as is reflected on the face of such certificates, multiplied by 1.1940912491 with respect to shares of Series E Preferred Stock, rounded down to the nearest whole number. The Company shall not be obliged to issue new certificates evidencing the shares of New Stock outstanding as a result of the Stock Split unless and until the certificates evidencing the shares held by a holder prior to the Stock Split are either delivered to the Company or its transfer agent, or the holder notifies the Company or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such certificates. No fractional interest in a share of New Stock shall be deliverable upon the Stock Split. All references to "Series E Preferred Stock" in this Certificate of Incorporation shall be to the New Stock. No further adjustment of any Conversion Price, preference, price or right set forth in this Certificate of Incorporation shall be made as a result of the Stock Split, as all share amounts, amounts per share and per share numbers set forth below in this Certificate of Incorporation have been appropriately adjusted to reflect the Stock Split.

The Company is authorized to issue two classes of stock, designated "Common Stock" and "Preferred Stock," respectively. The total number of shares which the Company is authorized to issue is 1,316,070,991 shares, \$0.001 par value. The number of shares of Common Stock which the Company is authorized to issue is 818,000,000 shares, and the number of shares of Preferred Stock which the Company is authorized to issue is 498,070,991 shares, of which 3,503,692 shares shall be designated "Series A Preferred," 24,515,966 shares shall be designated "Series B Preferred," 78,582,049 shares shall be designated "Series C Preferred," 8,338,892 shares shall be designated "Series C-2 Preferred," 43,362,233 shares shall be designated "Series D Preferred," 18,779,561 shares shall be designated "Series D-2 Preferred" and 320,988,598 shares shall be designated "Series E Preferred." The Series A Preferred, Series B Preferred, Series C Preferred, Series C-2 Preferred, Series D Preferred and Series D-2 Preferred are hereinafter referred to collectively as the "Junior Preferred."

#### ARTICLE V.

The relative rights, preferences, privileges, and restrictions granted to or imposed on the respective classes of the shares of capital stock or the holders thereof are as follows:

1. Dividends.

(a) The holders of Series E Preferred shall be entitled to receive, when, as and if declared by the Board of Directors, dividends out of funds legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock or other securities and rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock of the Company) on the Common Stock of the Company or on the Junior Preferred, at the per annum rate of \$0.0214 per share of

Series E Preferred (as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events). Such dividends shall not be cumulative, and no right to such dividends shall accrue to holders of the Series E Preferred unless declared by the Board of Directors. Any declared dividends by the Board of Directors shall be declared and calculated based on the original issuance date of each share of Series E Preferred and the per annum dividend rate for such share of Preferred Stock set forth in the prior sentence. No dividends or other distributions shall be made with respect to the Common Stock or the Junior Preferred, other than dividends payable solely in Common Stock, unless at the same time an equivalent dividend with respect to the Series E Preferred has been paid or set apart for payment.

(b) The holders of the Junior Preferred shall be entitled to receive, when, as and if declared by the Board of Directors, dividends out of funds legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock or other securities and rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock of the Company) on the Common Stock of the Company (but subject to the senior dividend preference of the Series E Preferred), at the per annum rate of \$0.0472 per share of Series A Preferred, \$0.07056 per share of Series B Preferred, \$0.03838 per share of Series C Preferred, \$0.048 per share of Series C-2 Preferred, \$0.048 per share of Series D Preferred and \$0.0528 per share of Series D-2 Preferred (each, as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events). Such dividends shall not be cumulative, and no right to such dividends shall accrue to holders of the Junior Preferred unless declared by the Board of Directors. Any declared dividends by the Board of Directors shall be declared and calculated based on the original issuance date of each share of Junior Preferred and the respective per annum dividend rate for such share of Junior Preferred. No dividends or other distributions shall be made with respect to the Common Stock, other than dividends payable solely in Common Stock, unless at the same time an equivalent dividend with respect to the Junior Preferred Stock has been paid or set apart for payment. Payment of any dividends to the holders of Junior Preferred shall be on a *pro rata, pari passu* basis in proportion to the dividend rates set forth above for each series of Junior Preferred.

(c) After the payment or setting aside for payment of the dividends described in Section 1(a) and Section 1(b), any additional dividends (other than dividends on Common Stock payable solely in Common Stock) set aside or paid in any fiscal year shall be set aside or paid among the holders of the Preferred Stock and Common Stock then outstanding in proportion to the greatest whole number of shares of Common Stock which would be held by each such holder if all shares of Preferred Stock had been converted to Common Stock pursuant to the terms of this Certificate of Incorporation immediately prior to such event.

2. Liquidation Preference. In the event of any liquidation, dissolution, or winding up of the Company (a "Liquidation"), either voluntary or involuntary, distributions to the stockholders of the Company shall be made in the following manner:

(a) (i) The holders of the Series E Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Junior Preferred or the Common Stock by reason of their ownership of such stock, an amount per share equal to the Original Issue Price (as defined below) of the Series E Preferred and all declared but unpaid dividends (if any) on such share of Series E Preferred. If

the assets and funds thus distributed among the holders of the Series E Preferred shall be insufficient to permit the payment to such holders of the full aforesaid preferential amount, then the entire assets and funds of the Company legally available for distribution shall be distributed pro rata among the holders of the Series E Preferred in proportion to the full amounts they would otherwise be entitled to receive pursuant to this Section 2(a)(i). For purposes of this Certificate of Incorporation, the "Original Issue Price" of a series of Preferred Stock shall mean the following (in each case, as adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events):

Series	Original Issue Price
Series A Preferred	\$ 0.59
Series B Preferred	\$ 0.8822
Series C Preferred	\$ 0.4797
Series C-2 Preferred	\$ 0.5996
Series D Preferred	\$ 0.5996
Series D-2 Preferred	\$ 0.6596
Series E Preferred	\$ 0.2674

(ii) After giving effect to the provisions of Section 2(a)(i), the holders of the Junior Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Common Stock by reason of their ownership of such stock, an amount per share equal to the Original Issue Price specified for such share of Junior Preferred and all declared but unpaid dividends (if any) on such share of Junior Preferred. If the assets and funds thus distributed among the holders of the Junior Preferred shall be insufficient to permit the payment to such holders of the full aforesaid preferential amount, then the entire assets and funds of the Company legally available for distribution shall be distributed pro rata among the holders of the Junior Preferred in proportion to the full amounts they would otherwise be entitled to receive pursuant to this Section 2(a)(ii).

(iii) After giving effect to the provisions of Section 2(a)(i) and Section 2(a)(ii), all of the assets of the Company shall be distributed to the holders of Preferred Stock and Common Stock *pro rata* based on the number of shares of Common Stock held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock pursuant to the terms of this Certificate of Incorporation immediately prior to such Liquidation; provided, however, that if the aggregate amount which the holders of Preferred Stock are entitled to receive under Sections 2(a)(i)-(iii) exceeds two times the applicable Original Issue Price per share for such series of Preferred Stock plus any dividends declared pursuant to Section 1(a)-(c) but unpaid thereon (the "Maximum Participation Amount"), each holder of Preferred Stock shall be entitled to receive upon such Liquidation the greater of (i) the Maximum Participation Amount and (ii) the amount such holder would have received if all shares of such series of Preferred Stock had been converted into Common Stock immediately prior to such

Liquidation. The aggregate amount which a holder of a share of Preferred Stock is entitled to receive under Section 2(a) is hereinafter referred to as the "Liquidation Amount."

(iv) In the event of a Liquidation pursuant to this Section 2, if any portion of the consideration payable to the stockholders of the Company is payable to the stockholders of the Company subject to contingencies (such consideration collectively referred to herein as "Contingent Consideration"), the governing transaction agreement shall provide that (a) the portion of such consideration that is not subject to any contingencies (the "Initial Consideration") shall be allocated among the holders of capital stock of the Company in accordance with Sections 2(a)(i)-(iii) as if the Initial Consideration were the only consideration payable in connection with such Liquidation and (b) any additional consideration which becomes payable to the stockholders of the Company upon satisfaction of contingencies shall be allocated among the holders of capital stock of the Company in accordance with Sections 2(a)(i)-(iii) after taking into account (x) the previous payment of (1) the Initial Consideration and (2) any other Contingent Consideration as part of the same transaction and (y) the application of Section 2(a)(iii). For the purposes of the application of Section 2(a)(iii), the value of the Initial Consideration and any Contingent Consideration shall be determined at the time such Initial Consideration or Contingent Consideration, as applicable, are to be legally distributed to the Company's stockholders as a result of a Liquidation.

(b) For purposes of this Section 2, unless the Preferred Majority (as defined below) and the Requisite Series E Majority (as defined below) elect otherwise, any of the following shall be treated as a Liquidation (each, a "Deemed Liquidation"): (i) any consolidation, merger or acquisition in which the Company is a constituent party (but excluding any merger effected solely for the purpose of reincorporating into another state), or any other corporate reorganization (including, without limitation, any consolidation, merger or acquisition in which a subsidiary of the Company is a constituent party and the Company issues shares of its capital stock pursuant to such merger, consolidation or acquisition), in which, in each case, the stockholders of the Company immediately prior to such consolidation, merger, acquisition or reorganization, own less than 50% of the voting power of the surviving or successor entity or its parent immediately after such consolidation, merger, acquisition or reorganization; (ii) any transaction or series of related transactions to which the Company is a party in which in excess of 50% of the Company's voting power is transferred, excluding any consolidation or merger effected solely for the purpose of reincorporating into another state; or (iii) any sale, lease, transfer, exclusive license or other disposition by the Company or any subsidiary or subsidiaries of the Company of all or substantially all of the assets of the Company and its subsidiaries taken as a whole (or, if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by one or more subsidiaries, the sale or disposition (whether by consolidation, merger, conversion or otherwise) of such subsidiaries of the Company or all or substantially all of the assets of such subsidiaries), except where such sale, lease, transfer, exclusive license or other disposition is made to the Company or one or more wholly owned subsidiaries of the Company. Notwithstanding the foregoing, neither (i) the sale and issuance of Series E Preferred pursuant to the Amended and Restated Series E Preferred Stock Purchase Agreement (as may be amended or modified from time to time) dated on or about the date of filing of this Certificate of Incorporation, nor (ii) the transfer by any stockholder of shares of the Company's capital stock to any third party in a transaction or series of related transactions to which the Company is not a party, shall be a Deemed Liquidation for purposes of this Section 2.

For purposes of this Certificate of Incorporation, (i) the term “Preferred Majority” shall mean the holders of a majority of the then-outstanding shares of Preferred Stock, voting together as a single class on an as-converted to Common Stock basis, and (ii) the term “Requisite Series E Majority” shall mean the holders of at least 70% of the then-outstanding shares of Series E Preferred, voting as a separate class.

(c) Any securities to be delivered pursuant to Section 2(a) above shall be valued as follows:

(i) securities not subject to investment letter or other similar restrictions on free marketability:

(A) if traded on a nationally recognized securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the 30-day period ending three days prior to the closing;

(B) if actively traded over-the-counter or through an automated dealer quotation system, the value shall be deemed to be the average of the closing bid or sale prices (whichever are applicable) over the 30 day period ending three days prior to the closing; and

(C) if there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board of Directors.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subparagraphs 2(c)(i)(A), (B), or (C) to reflect the approximate fair market value thereof, as determined in good faith by the Board of Directors.

(d) In accordance with Section 500 of the California Corporations Code, a distribution can be made without regard to any preferential dividends arrears amount (as defined in Section 500 of the California Corporations Code) or any preferential rights amount (as defined in Section 500 of the California Corporations Code) in connection with (i) repurchases of Common Stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries upon termination of their employment or services pursuant to agreements providing for the right of said repurchase, or (ii) repurchases of Common Stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries pursuant to rights of first refusal contained in agreements providing for such right, in each case as approved by the Board of Directors.

### 3. Redemption.

(a) At the election of the Preferred Majority anytime following May 24, 2023, the Company shall redeem, out of funds legally available therefor, all (but not less than all) outstanding shares of Preferred Stock which have not been converted into Common Stock, in three equal annual installments (each a “Redemption Date”) commencing no earlier than four months and no later than six months after the date on which the Preferred Majority notify the Company in writing of their election to redeem the Preferred Stock hereunder. The Company

shall redeem the shares of Preferred Stock by paying in cash an amount per share equal to the applicable Original Issue Price for such series of Preferred Stock, plus 8% per annum of the applicable Original Issue Price calculated from the original issue date of each redeemed share of Preferred Stock (the "Redemption Price"). The number of shares of Preferred Stock that the Company shall be required under this Section 3 to redeem on any one Redemption Date shall be equal to the amount determined by dividing: (a) the aggregate number of shares of Preferred Stock outstanding immediately prior to the Redemption Date by (b) the number of remaining Redemption Dates (including the Redemption Date to which such calculation applies). If the funds legally available for redemption of the Preferred Stock shall be insufficient to permit the payment to such holders of the full respective Redemption Prices, the Company shall effect such redemption (i) first, to the holders of Series E Preferred, until the Redemption Price for the Series E Preferred has been paid in full and (ii) second (and only after the Redemption Price for the Series E Preferred has been paid in full) to the holders of Junior Preferred, *pro rata* among such holders so that each such holder shall receive a redemption payment equal to a fraction of the aggregate amount available for redemption, (x) the numerator of which is the number of shares of Junior Preferred held by such holder, with each share of Junior Preferred multiplied by the applicable Redemption Price of such share, and (y) the denominator of which is the number of shares of Junior Preferred outstanding multiplied by the Redemption Price of each such outstanding share of Junior Preferred.

(b) At least 15, but no more than 30 days prior to each Redemption Date, written notice shall be mailed by the Company, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Preferred Stock to be redeemed, at the address last shown on the records of the Company for such holder, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the Redemption Date, the Redemption Price, the place at which payment may be obtained and calling upon such holder to surrender to the Company, in the manner and at the place designated, the holder's certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Except as provided herein, on or after the Redemption Date each holder of Preferred Stock to be redeemed shall surrender to this Company the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, or such holder may notify the Company that such certificates have been lost, stolen, or destroyed and execute an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such certificates, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates, or such agreement and indemnification in the case of a lost certificate, as the owner thereof and each surrendered certificate shall be cancelled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(c) From and after the applicable Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of shares of Preferred Stock designated for redemption in the Redemption Notice as holders of Preferred Stock (except the right to receive the Redemption Price without interest upon surrender of their certificate or certificates) shall cease with respect to the shares designated for redemption on such date, and such shares shall not thereafter be transferred on the books of the Company or be deemed to be outstanding for any purpose whatsoever. If the funds of the Company legally available for

---

redemption of shares of Preferred Stock on any Redemption Date are insufficient to redeem the total number of shares of Preferred Stock to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of such shares to be redeemed based upon their holdings of Preferred Stock. The shares of Preferred Stock not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. At any time thereafter when additional funds of the Company are legally available for the redemption of shares of Preferred Stock such funds will immediately be used to redeem the balance of the shares which the Company has become obliged to redeem on any Redemption Date, but which it has not redeemed, in each case according to the priority set forth in the last sentence of Section 3(a).

(d) On or prior to each Redemption Date, the Company may deposit the Redemption Price of all shares of Preferred Stock designated for redemption in the Redemption Notice and not yet redeemed with a bank or trust corporation having aggregate capital and surplus in excess of \$100,000,000, as a trust fund for the benefit of the respective holders of the shares designated for redemption and not yet redeemed, with irrevocable instructions and authority to the bank or trust corporation to pay the Redemption Price for such shares to their respective holders on or after the Redemption Date upon receipt of notification from the Company that such holder has surrendered a share certificate, or an agreement and indemnification in the case of a lost certificate, to the Company pursuant to Section 3(c). As of the Redemption Date, the deposit shall constitute full payment of the shares to their holders, and from and after the Redemption Date the shares so called for redemption shall be redeemed and shall be deemed to be no longer outstanding, and the holders thereof shall cease to be stockholders with respect to such shares and shall have no rights with respect thereto except the right to receive from the bank or trust corporation payment of the Redemption Price of the shares, without interest, upon surrender of their certificates therefor. Such instructions shall also provide that any moneys deposited by the Company pursuant to this Section 3(d) for the redemption of shares thereafter converted into shares of the Company's Common Stock prior to the Redemption Date shall be returned to the Company forthwith upon such conversion. The balance of any moneys deposited by the Company pursuant to this Section 3(d) remaining unclaimed at the expiration of two years following the Redemption Date shall thereafter be returned to the Company upon its request expressed in a resolution of its Board of Directors.

4. Conversion. The holders of Preferred Stock shall have conversion rights as follows (the “Conversion Rights”):

(a) Right to Convert.

(i) Subject to Section 4(b) below, each share of Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Company or any transfer agent for the Preferred Stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the Original Issue Price for such series of Preferred Stock by the Conversion Price (as defined below) for such series of Preferred Stock in effect at the time of conversion (such quotient, the “Conversion Rate” of such series of Preferred Stock). The “Conversion Price” of each series of Preferred Stock shall initially mean the following amounts, subject to further adjustment as hereinafter provided:

<u>Series</u>	<u>Conversion Price</u>
Series A Preferred	\$ 0.3756
Series B Preferred	\$ 0.4203
Series C Preferred	\$ 0.3573
Series C-2 Preferred	\$ 0.4081
Series D Preferred	\$ 0.4081
Series D-2 Preferred	\$ 0.4336
Series E Preferred	\$ 0.2674

(b) Automatic Conversion. Each share of Preferred Stock shall automatically be converted into shares of Common Stock at the then-effective Conversion Rate for such series upon the date of the closing (the “Public Offering Closing Date”) of a firm commitment underwritten public offering (the “Public Offering”) pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale to the public of Common Stock for the account of the Company at a public offering price of not less than \$0.4011 per share (as appropriately adjusted for stock splits, stock dividends or distributions, recapitalizations, and similar events) and resulting in at least \$50,000,000 in cash proceeds to the Company, net of underwriting discounts and commissions (a “Qualified Public Offering”). In addition, (i) each share of Junior Preferred shall automatically be converted into shares of Common Stock at the then-effective Conversion Rate for such series upon the written election of the holders of a majority of the then-outstanding Junior Preferred, voting or consenting together as a single class on an as-converted to Common Stock basis and (ii) each share of Series E Preferred shall automatically be converted into shares of Common Stock at the then-effective Conversion Rate for such series upon the written election of the Requisite Series E Majority.

(c) Mechanics of Conversion. No fractional shares of Common Stock shall be issued upon conversion of the Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall pay cash equal to such fraction multiplied by the then-effective Conversion Price for the applicable series of Preferred Stock. If a single holder shall surrender more than one share of Preferred Stock for conversion at the same time, the number of full shares of Common Stock issuable by the Company upon conversion thereof shall be computed on the basis of the aggregate number of shares of Preferred Stock so surrendered. Before any holder of Preferred Stock shall be entitled to convert the same into full shares of Common Stock and to receive certificates therefor, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or of any transfer agent for the Preferred Stock, or shall notify the Company or its transfer agent that such certificates have been lost, stolen, or destroyed and executes an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such certificates, and shall give written notice to the Company at such office that he elects to convert the same. The Company shall, as soon as practicable after such delivery, or such agreement and indemnification in the case of a lost certificate, issue and deliver at such office to such holder of



Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid, a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common Stock and payment of any declared but unpaid dividends. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Preferred Stock to be converted, or in the case of automatic conversion on the date of closing of the offering or the effective date of such written consent, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date. Notwithstanding the foregoing, in the event of an automatic conversion pursuant to Section 4(b) above, the outstanding shares of the applicable series of Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Company or its transfer agent, and provided further that the Company shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such automatic conversion unless the certificates evidencing such shares of Preferred Stock, or such agreement and indemnification in the case of a lost certificate, are delivered to the Company or its transfer agent as provided above.

(d) Adjustments for Diluting Issues.

(i) Special Definitions. For purposes of this Section 4(d), the following definitions shall apply:

(A) 'Options' shall mean rights, options or warrants to subscribe for, purchase, or otherwise acquire either Common Stock or Convertible Securities.

(B) 'Original Issue Date' shall mean the first date to occur on or after the date of filing of this Certificate of Incorporation on which the first share of Series E Preferred was issued.

(C) 'Convertible Securities' shall mean any equity securities (other than the Common Stock) convertible into or exchangeable for Common Stock.

(D) 'Additional Shares of Common Stock' shall mean all shares of Common Stock issued (or, pursuant to Section 4(d)(iii)(B), deemed to be issued) by the Company on or after the Original Issue Date, other than:

(1) shares of Common Stock actually issued at any time upon conversion of the shares of the Preferred Stock authorized herein or upon conversion of Convertible Securities (including Preferred Stock to be issued upon exercise of warrants exercisable for Preferred Stock);

(2) shares of Common Stock, Options or Convertible Securities issued at any time to any officer, director or employee of, or any consultant or strategic partner to, the Company pursuant to a plan, agreement or other arrangement approved by the Board of Directors;

(3) shares of Common Stock or Convertible Securities issued at any time in connection with a business combination approved by the Board of Directors and entered into primarily for a purpose other than for financing purposes, including combinations by merger or asset purchase or other reorganization approved by the Board of Directors and entered into primarily for a purpose other than for financing purposes, which, in each case, financing purposes include without limitation, providing the Company with access to another company's cash or financing opportunities to finance the Company's operations;

(4) shares of Common Stock, Options or Convertible Securities issued at any time in connection with debt financing transactions or equipment lease transactions or other similar transactions that are not primarily equity financing transactions with lenders, customers, vendors, lessors or other commercial or strategic partners, which transactions are approved by the Board of Directors;

(5) shares of Common Stock or Convertible Securities issued in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships, in each case which are not primarily equity financing transactions and which are approved by the Board of Directors;

(6) shares of Common Stock or Convertible Securities issued at any time as a dividend or distribution on the Preferred Stock, or any event for which adjustment is made pursuant to subparagraph (d)(iv),(v), (vi) or (ix) hereof;

(7) shares of Common Stock or Preferred Stock issued at any time in connection with a firm commitment public offering pursuant to a registration statement filed with the U.S. Securities and Exchange Commission;

(8) shares of Series E Preferred issued pursuant to that certain Amended and Restated Series E Preferred Stock Purchase Agreement dated on or about the date of filing of this Certificate of Incorporation, as the same may be amended from time to time; and

(9) shares of Common Stock or Convertible Securities issued at any time by way of dividend or other distribution on shares of Common Stock excluded from the definition of Additional Shares of Common Stock by the foregoing clauses (1), (2), (3), (4), (5), (6), (7), (8) or this clause (9), or on shares of Common Stock so excluded.

For the avoidance of doubt, the issuance and sale of shares of Preferred Stock by the Company in a preferred stock financing shall constitute an issuance of "Additional Shares of Common Stock" for purposes of this Section 4 except as otherwise set forth above.

(ii) Adjustment of Conversion Price upon Issuance of Additional Shares of Common Stock. In the event the Company shall at any time or from time to time on or after the Original Issue Date issue Additional Shares of Common Stock without consideration or for a consideration per share less than the Conversion Price of a series of Preferred Stock as in effect on the date of and immediately prior to such issue, then in such event, the Conversion Price of such series of Preferred Stock shall be reduced, concurrently with such issue, to a price (rounded to the nearest one hundredth of one cent) determined by multiplying such Conversion

Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of shares of Common Stock which the aggregate consideration received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at the then-applicable Conversion Price for such series of Preferred Stock; and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued; provided that for the purposes of this Section 4(d)(ii), all shares of Common Stock issued or issuable upon conversion of the then outstanding Preferred Stock or other Convertible Securities, or upon exercise of then-outstanding Options, shall be deemed to be outstanding.

(iii) Determination of Consideration. For purposes of this Section 4(d), the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) Cash and Property: Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company without any deduction for commissions and excluding amounts paid or payable for accrued interest or accrued dividends;

(2) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors.

(B) Options and Convertible Securities. In the case of issuance of Options or Convertible Securities, the following provisions shall apply for all purposes of Section 4(d):

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise (assuming the satisfaction of any conditions to exercisability or convertibility or exchangeability, including, without limitation, the passage of time) of such Options shall be deemed to be Additional Shares of Common Stock issued at the time such Options were issued and for a consideration equal to the consideration (determined in the manner provided in subparagraph 4(d)(iii)(A)), if any, received by the Company upon the issuance of such Options plus the exercise price provided in such Options for the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion or in exchange for such Convertible Securities or upon the exercise or conversion (assuming the satisfaction of any conditions to exercisability or convertibility or exchangeability, including, without limitation, the passage of time) of any Options or Convertible Securities issued upon exercise or conversion of such Convertible

---

Securities shall be deemed to be Additional Shares of Common Stock issued at the time such securities were issued or such Options or Convertible Securities were issued and for a consideration equal to the consideration, if any, received by the Company for any such securities and related Options or Convertible Securities (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Company upon the conversion or exchange of such securities or the exercise of any related Options or Convertible Securities (the consideration in each case to be determined in the manner provided in subparagraph 4(d)(iii)(A)).

(3) In the event of any change in the number of shares of Common Stock deliverable or in the consideration payable to this Company upon exercise or conversion of such Options or Convertible Securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Conversion Price of each series of Preferred Stock, to the extent in any way affected by or computed using such Options or Convertible Securities, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise or conversion of such Options or Convertible Securities.

(4) Upon the expiration of any such Options or Convertible Securities, the Conversion Price of each series of Preferred Stock, to the extent in any way affected by or computed using such Options or Convertible Securities, shall be recomputed to reflect the issuance of only the number of shares of Common Stock (and Options and Convertible Securities which remain in effect) actually issued upon the conversion or exchange of such securities or upon the exercise of the Options (but without affecting shares of Common Stock already issued upon conversion of any shares of Preferred Stock already converted).

(5) The number of shares of Common Stock deemed issued and the consideration deemed paid therefor pursuant to subparagraphs 4(d)(iii)(B)(1) and (2) shall be appropriately adjusted to reflect any change, termination or expiration of the type described in either subparagraph 4(d)(iii)(B)(3) or (4).

(iv) Adjustments for Subdivisions or Combinations of or Stock Dividends on Common Stock In the event the outstanding shares of Common Stock shall be subdivided (by stock split or otherwise), into a greater number of shares of Common Stock, or the Company at any time or from time to time after the Original Issue Date shall declare or pay any dividend on the Common Stock payable in Common Stock, then the Conversion Rate of each series of Preferred Stock as then in effect shall, concurrently with the effectiveness of such subdivision or stock dividend, be proportionately increased based on the ratio of (A) the number of shares of Common Stock outstanding immediately after such subdivision or stock dividend to (B) the number of shares of Common Stock outstanding immediately prior to such subdivision or stock dividend. In the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Conversion Rate of each series of Preferred Stock as then in effect shall, concurrently with the effectiveness of such combination or consolidation, be proportionately decreased on the same basis.

(v) Adjustments for Other Distributions. In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, any distribution payable in (A) securities of the Company or other entities (other than shares of Common Stock and other than as otherwise adjusted in this Section 4 or as otherwise provided in Section 1), (B) evidences of indebtedness issued by the Company or other persons, or (C) assets (excluding cash dividends) or options or rights not referred to in subparagraph 4(d)(iii)(B), then, and in each such event, provision shall be made so that the holders of Preferred Stock shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the amount of such distribution which they would have received had their shares of Preferred Stock been converted into Common Stock on the date of such event at the then-applicable Conversion Rate and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 4 with respect to the rights of the holders of the Preferred Stock.

(vi) Adjustments for Recapitalization, Reclassification, Exchange and Substitution. If at any time or from time to time the Common Stock issuable upon conversion of the Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by recapitalization, capital reorganization, reclassification or otherwise (other than a subdivision, combination of shares or merger or sale of assets transaction provided for above or in Section 2(b)), then the Conversion Rate of each series of Preferred Stock as then in effect shall, concurrently with the effectiveness of such recapitalization, reorganization or reclassification, be proportionately adjusted such that each series of Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders thereof would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of such series of Preferred Stock immediately before that change. In addition, to the extent applicable in any reorganization or recapitalization, provision shall be made so that the holders of Preferred Stock shall thereafter be entitled to receive upon conversion of the Preferred Stock the number of shares of stock or other securities or property of the Company or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such reorganization or recapitalization.

(vii) No Adjustment of Conversion Price. No adjustment of the Conversion Price of the Series A Preferred shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Company receives written notice from the holders of at least a majority of the then outstanding shares of Series A Preferred agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock. No adjustment to the Conversion Price of the Series C Preferred or the Series C-2 Preferred shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock without consideration or for a consideration per share less than then-applicable Conversion Price if the Company receives written notice from the holders of at least two-thirds of the then outstanding shares of Series C Preferred and Series C-2 Preferred, voting together as a single class on an as-converted to Common Stock basis, agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock. No adjustment of the Conversion Price of the Series E

Preferred shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Company receives written notice from the Requisite Series E Majority agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock. No adjustment of the Conversion Price of any series of Preferred Stock other than the Series A Preferred, the Series C Preferred, the Series C-2 Preferred and the Series E Preferred shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Company receives written notice from the holders of at least two-thirds of the then outstanding shares of such series of Preferred Stock agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

(viii) In the event of a Financing Acquisition Transaction, pursuant to which the Company's stockholders are to receive securities of another company (the "Issuing Company") and the Effective Consideration Per Share is less than the Conversion Price of the Series C Preferred, Series C-2 Preferred, Series D Preferred, Series D-2 Preferred or Series E Preferred, as applicable, in effect immediately prior to the consummation of the Financing Acquisition Transaction (the "Closing"), then the Conversion Price of such series in effect immediately prior to the Closing shall be adjusted in a manner consistent with subparagraph (4)(d)(ii); provided that (i) the number of shares of "Additional Shares of Common Stock" issued shall be deemed to be equal to the number of the Issuing Company's Merger Shares, (ii) the aggregate consideration per share received by the Company shall be deemed to be equal to the Effective Consideration Per Share and (iii) the number of shares of "Common Stock outstanding" as used in subparagraph (4)(d)(ii) shall be deemed to be equal to the number of Consideration Merger Shares, with appropriate corresponding adjustments to the Original Issue Price and the Conversion Price of such series of Preferred Stock (including, without limitation, for purposes of determining (x) if the Effective Consideration Per Share is less than the Conversion Price of the applicable series of Preferred Stock and (y) the resulting Conversion Rate of the applicable series of Preferred Stock). For purposes of this subsection (viii):

(A) "Combined Entity" shall mean the company issuing shares to the former stakeholders (including, without limitation, stockholders and other equityholders) of the Company pursuant to the Financing Acquisition Transaction.

(B) "Consideration Merger Shares" shall mean all Outstanding Stock (as defined below) of the Combined Entity to be issued to all former stakeholders (including, without limitation, stockholders and other equityholders) of the Company, as of immediately prior to the Closing, upon the Closing as a result of their holdings in the Company immediately prior to the Closing.

(C) "Effective Consideration Per Share" shall mean the fair market value of all Outstanding Stock (as defined below) of the Issuing Company (calculated immediately prior to the Financing Acquisition Transaction), which shall be determined in a manner consistent with subsection 2(c), divided by the number of Issuing Company's Merger Shares.

(D) "Financing Acquisition Transaction" means a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale

or exchange of stock or otherwise, which does not constitute a Liquidation or Deemed Liquidation and is entered into primarily for the purpose of financing the Company, which financing purposes include without limitation, providing the Company with access to the Issuing Company's cash or financing opportunities.

(E) "Issuing Company's Merger Shares" shall mean all Outstanding Stock of the Combined Entity to be held by all former stakeholders (including, without limitation, stockholders and other equityholders) of the Issuing Company, as of immediately prior to the Closing, upon the Closing as a result of their holdings in the Issuing Company immediately prior to the Closing.

(F) "Outstanding Stock" shall mean and include the following: (1) outstanding Common Stock, (2) Common Stock issuable upon conversion of outstanding Preferred Stock, (3) Common Stock issuable upon exercise of outstanding stock options and other rights to purchase shares of capital stock and (4) Common Stock issuable upon exercise (and, in the case of warrants to purchase Preferred Stock, conversion) of outstanding warrants. Shares described in (1) through (4) above shall be included whether vested or unvested, whether contingent or non-contingent and whether exercisable or not yet exercisable.

(ix) Adjustment upon a Triggering Event. Upon the occurrence of a Triggering Event, the Conversion Price of the Series E Preferred shall (unless waived by the Requisite Series E Majority pursuant to written notice delivered to the Company on or before February 15, 2019) automatically be reduced to the price obtained by dividing (a) the Conversion Price of the Series E Preferred as in effect immediately prior to the Triggering Event by (b) 1.25, rounded to the nearest one hundredth of one cent. For the avoidance of doubt, in the event no Triggering Event occurs, this subsection (ix) shall lapse and no adjustment to the Conversion Price of the Series E Preferred shall be made pursuant to this subsection (ix). For purposes of this subsection (ix):

(A) "Approved IPO" means (a) a Qualified Public Offering or (b) an initial public offering of the Company's Common Stock that is approved by the Requisite Series E Majority; and

(B) "Triggering Event" means the failure of the Company to close an Approved IPO on or before February 15, 2019.

(e) No Impairment. Except as provided in Section 5, the Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 4 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Preferred Stock.

(f) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price or the Conversion Rate of a series of Preferred Stock pursuant to this Section 4, the Company at its expense shall promptly compute such adjustment

or readjustment in accordance with the terms hereof and furnish to each holder of Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of any holder of Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the respective Conversion Price and Conversion Rate of each series of Preferred Stock at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of each series of Preferred Stock.

(g) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of the Preferred Stock such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Preferred Stock, in addition to such other remedies as shall be available to the holder of such Preferred Stock, the Company will take such corporate action as may, in the opinion of counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(h) Notices of Record Date. In the event that the Company shall propose at any time:

(i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights;

(iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or

(iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all its property or business, or to liquidate, dissolve or wind up; then, in connection with each such event, the Company shall send to the holders of the Preferred Stock:

(A) in the case of the matters referred to in (i) and (ii) above, at least 10 days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto and the amount and character of such dividend, distribution or right); and

(B) in the case of the matters referred to in (iii) and (iv) above, at least 10 days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common



Stock for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier).

Any notice required by the provisions of this Section 4(h) shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified; (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient (if not sent during normal business hours, then on the next business day); (iii) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All notices shall be addressed to each holder of record at the address of such holder appearing on the books of the Company. Any notice required by the provisions of this Section 4(h) may be shortened or waived prospectively or retrospectively, with respect to any series of Preferred Stock other than the Series E Preferred, by the vote or written consent of the Preferred Majority, and with respect to the Series E Preferred, by the vote or written consent of the Requisite Series E Majority.

#### 5. Covenants.

(a) In addition to any other rights provided by law (including the rights of holders of each series of Preferred Stock under §242 of the DGCL), so long as not less than an aggregate of 10,000,000 shares of Preferred Stock (subject to adjustment for stock splits, stock dividends or distributions, recapitalizations and similar events) shall be outstanding, the Company shall not, directly or indirectly, whether by amendment, merger, recapitalization or otherwise, without first obtaining the affirmative vote or written consent of the Preferred Majority:

(i) amend, waive, alter or repeal any provision of, or add any provision to, the Company's Certificate of Incorporation or Bylaws in any manner, including if such action would (A) adversely alter or change the preferences, rights, privileges, or powers of, or the restrictions provided for the benefit of, any of the Preferred Stock in a manner different from other classes of stock; (B) increase or decrease the authorized number of shares of Common Stock or Preferred Stock; or (C) authorize, create or reclassify any class or series of stock (or any security convertible into or exercisable for any class or series of stock) having any rights, preferences, privileges or voting powers senior to or on parity with any series of Preferred Stock;

(ii) authorize or consummate a Liquidation, Deemed Liquidation or any consolidation, merger, or acquisition by the Company with, into, or of any other corporation or other entity or person;

(iii) increase or decrease the authorized size of the Company's Board of Directors;

(iv) pay or declare any dividend or other distribution on any shares of Common Stock or Preferred Stock;

(v) redeem or repurchase any shares of Common Stock, except (i) as expressly permitted herein; (ii) as a result of the Company's exercising its right of first refusal on

---

stockholder transfers as set forth in any agreement between the Company and any holder of its outstanding capital stock; and (iii) from employees or consultants of the Company upon termination of employment or association pursuant to the terms of restrictive stock purchase agreements providing for the repurchase of such shares at the lower of fair market value or cost entered into with such employees or consultants, in each case as approved by the Board of Directors; or

(vi) create any subsidiary, dispose of any subsidiary or dispose of any material assets of any subsidiary outside of the ordinary course of business.

(b) In addition to any other rights provided by law, so long as not less than an aggregate of 10,000,000 shares of Preferred Stock (subject to adjustment for stock splits, stock dividends or distributions, recapitalizations and similar events) shall be outstanding, the Company shall not, directly or indirectly, whether by merger or otherwise, without first obtaining the affirmative vote or written consent of the Board of Directors, including a majority of the Preferred Directors:

(i) enter into any exclusive license not in the ordinary course of business, or any out-license of Company intellectual property or out-license of any intellectual property relating to the Company's business that is owned or controlled by the Company;

(ii) enter into any guarantee, endorsement or otherwise become directly or contingently liable on any indebtedness of any other person, firm or other entity;

(iii) grant a security interest in the assets of the Company (other than in the ordinary course of business);

(iv) enter into any loan or advance to any officer, director, employee, consultant or any other person, or any subsidiary or other corporation, partnership, person, individual or other entity;

(v) enter into any transaction with any director, officer or employee of the Company or any "associate" (as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended) of any such person except transactions made in the ordinary course of business and pursuant to reasonable requirements of the Company's business and upon fair and reasonable terms that are approved by a majority of the Board of Directors;

(vi) make any material change to the principal business of the Company, or entry into a new principal line of business, or exit from the current principal line of business;

(vii) hire, fire or change the compensation of the Company's Chief Executive Officer;

(viii) authorize new borrowings of the Company in excess of \$500,000; or

(ix) effect any transfer or other conveyance of assets of the Company, other than in the ordinary course of business, if the value of such transfer or conveyance, either individually or in the aggregate, would exceed \$50,000.

(c) In addition to any other rights provided by law, so long as any shares of Series E Preferred remain outstanding, the Company shall not, directly or indirectly, whether by amendment, merger, recapitalization or otherwise, without first obtaining the affirmative vote or written consent of the Requisite Series E Majority:

(i) amend, alter, waive or repeal any provision of the Company's Certificate of Incorporation or Bylaws in a manner that would alter or change the powers, preferences or special rights of the Series E Preferred so as to affect them adversely; provided, however, that neither (x) the authorization or issuance of any equity security (including any other security convertible into or exercisable for any such equity security) and/or (y) the inclusion of such equity security in the definition of "Preferred Stock" in the Company's Certificate of Incorporation or any amendment thereto, shall be deemed to alter or change the powers, preferences or special rights of the Series E Preferred or otherwise require the separate vote or written consent of the holders of the Series E Preferred pursuant to this paragraph;

(ii) waive, amend, alter or repeal the rights of the holders of Series E Preferred pursuant to Section 6(b) to elect the Series E Director;

(iii) waive, amend, alter or repeal (a) the definitions of "Requisite Series E Majority," "Qualified Public Offering" or the Original Issue Price of the Series E Preferred or the use of such terms herein or (b) Section 4(d)(ix);

(iv) purchase or redeem (or permit any subsidiary to purchase or redeem) (a) any shares of any class of Preferred Stock other than the Series E Preferred or (b) any shares of Common Stock except as permitted by Section 5(a)(v) above;

(v) reclassify, alter or amend any existing security of the Company that is junior to the Series E Preferred in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to or pari passu with the Series E Preferred Stock in respect of any such right, preference or privilege; or

(vi) increase the number of authorized shares of Series E Preferred Stock.

#### 6. Voting Rights.

(a) Holders of the Preferred Stock shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock and shall be entitled to vote, together with the holders of Common Stock, with respect to any questions upon which holders of Common Stock have the right to vote. Except as otherwise required by law or by Section 5, the holder of each share of Common Stock issued and outstanding shall have one vote, and the holder of each share of Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share of Preferred Stock could be

converted at the record date for determination of the stockholders entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of stockholders is solicited, such votes to be counted together with all other shares of stock of the Company having general voting power and not separately as a class. Fractional votes by the holders of Preferred Stock shall not, however, be permitted and any fractional voting rights shall (after aggregating all shares into which shares of Preferred Stock held by each holder could be converted) be rounded to the nearest whole number. Holders of Common Stock and Preferred Stock shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Company. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by (in addition to any vote of the holders of one or more series of Preferred Stock that may be required by the terms of the Certificate of Incorporation) the affirmative vote of the holders of shares of capital stock of the Company representing a majority of the votes represented by all outstanding shares of capital stock of the Company entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

(b) Election of Directors. The holders of record of the shares of Series E Preferred, voting as a separate class, shall be entitled to elect one director of the Company (the "Series E Director"). The holders of record of the shares of Series C Preferred shall be entitled to elect two directors of the Company (the "Series C Directors"), the holders of record of the shares of Series B Preferred shall be entitled to elect one director of the Company (the "Series B Director"), the holders of record of the shares of Series A Preferred shall be entitled to elect one director of the Company (the "Series A Director," and together with the Series E Director, the Series C Directors and Series B Director, the "Preferred Directors"). The holders of record of the shares of Common Stock, voting as a separate class, shall be entitled to elect one director (the "Common Director"). Any director elected as provided in the preceding sentences may be removed without cause by, and only by, the affirmative vote of the holders of the shares of the class or series of capital stock entitled to elect such director or directors, given either at a special meeting of such stockholders duly called for that purpose or pursuant to a written consent of stockholders. The holders of record of the shares of Common Stock and Preferred Stock, exclusively and voting together as a single class, shall be entitled to elect the balance of the total number of directors of the Company (the "Remaining Directors"). At any meeting held for the purpose of electing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series entitled to elect such director shall constitute a quorum for the purpose of electing such director. A vacancy in any directorship filled by the holders of any class or series shall be filled only by vote or written consent in lieu of a meeting of the holders of such class or series or by any remaining director or directors elected by the holders of such class or series pursuant to this Section 6(b). Notwithstanding the foregoing, for administrative convenience, the initial Series E Director may also be appointed by the Board in connection with the issuance of Series E Preferred on or about the date of filing of this Certificate of Incorporation without a separate action by the holders of Series E Preferred.

#### ARTICLE VI.

The Company is to have perpetual existence.

---

ARTICLE VII.

Elections of directors need not be by written ballot unless the Bylaws of the Company shall so provide.

ARTICLE VIII.

The number of directors which constitute the whole Board of Directors of the Company shall be determined in the manner set forth in the Bylaws of the Company.

ARTICLE IX.

Subject to the provisions of Article V, Section 5(a) herein, in furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Company.

ARTICLE X.

1. To the fullest extent permitted by the Delaware General Corporation Law as the same exists or as may hereafter be amended, a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director.
2. The Company shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director, officer or employee of the Company or any predecessor of the Company, or serves or served at any other enterprise as a director, officer or employee at the request of the Company or any predecessor to the Company.
3. Neither any amendment nor repeal of this Article X, nor the adoption of any provision of the Company's Certificate of Incorporation inconsistent with this Article X, shall eliminate or reduce the effect of this Article X, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article X, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE XI.

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Company may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Company.

ARTICLE XII.

Except as provided in the last sentence of Article V, Section 6(b), vacancies created by the resignation of one or more members of the Board of Directors and newly created directorships, created in accordance with the Bylaws of this Company, may be filled by the vote of a majority, although less than a quorum, of the directors then in office, or by a sole remaining director.

---

ARTICLE XIII.

Advance notice of new business and stockholder nominations for the election of directors shall be given in the manner and to the extent provided in the Bylaws of the Company.

ARTICLE XIV.

The Company reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation; provided that any such amendment, alteration, change or repeal shall require the prior written consent of (x) the Preferred Majority, if and to the extent such consent is required under Article V, Section 5(a) and (y) the Requisite Series E Majority, if and to the extent such consent is required under Article V, Section 5(c).

ARTICLE XV.

The Company renounces any interest or expectancy of the Company in, or in being offered an opportunity to participate in, any Excluded Opportunity. An Excluded Opportunity” is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of, (1) any director of the Company who is not an employee of the Company or any of its subsidiaries, or (2) any holder of Preferred Stock or any partner, member, director, stockholder, employee or agent of any such holder, if such holder is not an employee of the Company or of any of its subsidiaries (collectively, “Covered Persons”), unless such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of, a Covered Person expressly and solely in such Covered Person’s capacity as a director of the Company.

---

IN WITNESS WHEREOF, the Company has caused this Amended and Restated Certificate of Incorporation to be signed by William Newell, its Chief Executive Officer, effective as of July 26, 2018.

SUTRO BIOPHARMA, INC.

By: /s/ William Newell  
William Newell, Chief Executive Officer

**AMENDED AND RESTATED BYLAWS**  
**OF**  
**FUNDAMENTAL APPLIED BIOLOGY, INC.**  
**(a Delaware corporation)**

Amended and Restated on October 11, 2007



---

**Table of Contents**

	<u>Page</u>
ARTICLE I CORPORATE OFFICES	1
1.1 REGISTERED OFFICE	1
1.2 OTHER OFFICES	1
ARTICLE II MEETINGS OF STOCKHOLDERS	1
2.1 PLACE OF MEETINGS	1
2.2 ANNUAL MEETING	1
2.3 SPECIAL MEETING	3
2.4 NOTICE OF STOCKHOLDERS' MEETINGS	3
2.5 MANNER OF GIVING NOTICE, AFFIDAVIT OF NOTICE	4
2.6 QUORUM	4
2.7 ADJOURNED MEETING; NOTICE	4
2.8 VOTING	5
2.9 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT	5
2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING	5
2.11 RECORD DATE FOR STOCKHOWER NOTICE; VOTING; GIVING CONSENTS	6
2.12 PROXIES	7
2.13 INSPECTORS OF ELECTION	7
ARTICLE III DIRECTORS	7
3.1 POWERS	7
3.2 NUMBER	8
3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS	8
3.4 RESIGNATION AND VACANCIES	8
3.5 REMOVAL	9
3.6 PLACE OF MEETINGS; MEETINGS BY TELEPHONE	9
3.7 FIRST MEETINGS	10
3.8 REGULAR MEETINGS	10
3.9 SPECIAL MEETINGS; NOTICE	10
3.10 QUORUM	10
3.11 WAIVER OF NOTICE	11
3.12 ADJOURNMENT	11
3.13 NOTICE OF ADJOURNMENT	11
3.14 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING	11
3.15 FEES AND COMPENSATION OF DIRECTORS	11
3.16 APPROVAL OF LOANS TO OFFICERS	11
ARTICLE IV COMMITTEES	12

**TABLE OF CONTENTS**  
**(continued)**

	<b>Page</b>
4.1 COMMITTEES OF DIRECTORS	12
4.2 MEETINGS AND ACTION OF COMMITTEES	12
ARTICLE V OFFICERS	13
5.1 OFFICERS	13
5.2 ELECTION OF OFFICERS	13
5.3 SUBORDINATE OFFICERS	13
5.4 REMOVAL AND RESIGNATION OF OFFICERS	13
5.5 VACANCIES IN OFFICES	13
5.6 CHAIRMAN OF THE BOARD	14
5.7 CHIEF EXECUTIVE OFFICER	14
5.8 PRESIDENT	14
5.9 VICE PRESIDENTS	14
5.10 SECRETARY	14
5.11 CHIEF FINANCIAL OFFICER	15
ARTICLE VI INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS	15
6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS	15
6.2 INDEMNIFICATION OF OTHERS	16
6.3 INSURANCE	16
ARTICLE VII RIGHT OF FIRST REFUSAL	16
7.1 RIGHT OF FIRST REFUSAL	16
ARTICLE VIII RECORDS AND REPORTS	19
8.1 MAINTENANCE AND INSPECTION OF RECORDS	19
8.2 INSPECTION BY DIRECTORS	19
8.3 ANNUAL STATEMENT TO STOCKHOLDERS	20
8.4 REPRESENTATION OF SHARES OF OTHER CORPORATIONS	20
ARTICLE IX GENERAL MATTERS	20
9.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING	20
9.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS	20
9.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED	20
9.4 STOCK CERTIFICATES; PARTLY PAID SHARES	21
9.5 SPECIAL DESIGNATION ON CERTIFICATES	21
9.6 LOST CERTIFICATES	22

---

**TABLE OF CONTENTS**  
**(continued)**

	<b>Page</b>
9.7 CONSTRUCTION; DEFINITIONS	22
ARTICLE X AMENDMENTS	22
ARTICLE XI DISSOLUTION	22
ARTICLE XII CUSTODIAN	23
12.1 APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES	23
12.2 DUTIES OF CUSTODIAN	23

---

**AMENDED AND RESTATED BYLAWS  
OF  
FUNDAMENTAL APPLIED BIOLOGY, INC.**

**(a Delaware corporation)**

**ARTICLE I**

**CORPORATE OFFICES**

***1.1 REGISTERED OFFICE***

The registered office of the corporation shall be fixed in the Certificate of Incorporation of the corporation.

***1.2 OTHER OFFICES***

The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

**ARTICLE II**

**MEETINGS OF STOCKHOLDERS**

***2.1 PLACE OF MEETINGS***

Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

***2.2 ANNUAL MEETING***

(a) The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected, and any other proper business may be transacted.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (B) otherwise properly brought

before the meeting by or at the direction of the Board of Directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than one hundred twenty (120) calendar days in advance of the date specified in the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received a reasonable time before the solicitation is made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, (iv) any material interest of the stockholder in such business and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this paragraph (b). The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this paragraph (b), and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(c) Only persons who are nominated in accordance with the procedures set forth in this paragraph (c) shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors or by any stockholder of the corporation entitled to vote in the election of Directors at the meeting who complies with the notice procedures set forth in this paragraph (c). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation in accordance with the provisions of paragraph (b) of this Section 2.2. Such stockholder's notice shall set forth (i) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a Director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a Director if elected);

---

and (ii) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (b) of this Section 2.2. At the request of the Board of Directors, any person nominated by a stockholder for election as a Director shall furnish to the Secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a Director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (c). The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare at the meeting, and the defective nomination shall be disregarded.

### **2.3 SPECIAL MEETING**

A special meeting of the stockholders may be called at any time by the Board of Directors, or by the chairman of the board, or in the absence of the chairman of the board by the chief executive officer, or by one or more shareholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting, but such special meetings may not be called by any other person or persons.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, chief executive officer, or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5, that a meeting will be held at the time requested by the person or persons who called the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

### **2.4 NOTICE OF STOCKHOLDERS' MEETINGS**

Except as set forth in Section 2.3, all notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 2.5 of these Bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

---

## **2.5 MANNER OF GIVING NOTICE, AFFIDAVIT OF NOTICE**

Written notice of any meeting of stockholders shall be given either personally or by first-class mail or by telegraphic or other written communication. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that stockholder by mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a stockholder at the address of that stockholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the stockholder at that address, then all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the stockholder on written demand of the stockholder at the principal executive office of the corporation for a period of one (1) year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

## **2.6 QUORUM**

The presence in person or by proxy of the holders of a majority of the shares entitled to vote thereat constitutes a quorum for the transaction of business at all meetings of stockholders. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

## **2.7 ADJOURNED MEETING; NOTICE**

Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as provided in Section 2.6 of these Bylaws.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is fixed or if the adjournment is for more than thirty (30) days from the date set for the original meeting, then notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.4 and 2.5 of these Bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

---

## **2.8 VOTING**

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these Bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners, and to voting trusts and other voting agreements).

Except as may be otherwise provided by applicable law, in the Certificate of Incorporation or by these Bylaws, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of the stockholders. Any stockholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but, if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares which the stockholder is entitled to vote.

If a quorum is present, the affirmative vote of the majority of the shares represented and voting at a duly held meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the stockholders, unless the vote of a greater number or a vote by classes is required by law or by the Certificate of Incorporation.

## **2.9 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT**

The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though they had been taken at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. The waiver of notice or consent or approval need not specify either the business to be transacted or the purpose of any annual or special meeting of stockholders. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of and presence at that meeting, except when the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law to be included in the notice of the meeting but not so included, if that objection is expressly made at the meeting.

## **2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING**

Unless otherwise provided in the Certificate of Incorporation, any action which may be taken at any annual or special meeting of stockholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted.



---

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

Notwithstanding the foregoing, effective upon the registration of any class of securities of the Corporation pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the stockholders of the Corporation may not take action by written consent without a meeting but must take any such actions at a duly called annual or special meeting.

**2.11 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS**

For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting nor more than sixty (60) days before any such action without a meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote or to give consents, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date.

If the board of directors does not so fix a record date:

(a) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

(b) the record date for determining stockholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board has been taken, shall be the day on which the first written consent is given, or (ii) when prior action by the board has been taken, shall be at the close of business on the day on which the board adopts the resolution relating to that action.

The record date for any other purpose shall be as provided in Article VIII of these Bylaws.

---

## **2.12 PROXIES**

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the General Corporation Law of Delaware.

## **2.13 INSPECTORS OF ELECTION**

Before any meeting of stockholders, the board of directors may appoint an inspector or inspectors of election to act' at the meeting or its adjournment. If no inspector of election is so appointed, then the chairman of the meeting may, and on the request of any stockholder or a stockholder's proxy shall, appoint an inspector or inspectors of election to act at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting pursuant to the request of one (1) or more stockholders or proxies, then the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

(a) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) receive votes, ballots or consents;

(c) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) count and tabulate all votes or consents;

(e) determine when the polls shall close;

(f) determine the result; and

(g) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

## **ARTICLE III**

### **DIRECTORS**

#### **3.1 POWERS**

Subject to the provisions of the General Corporation Law of Delaware and to any limitations in the Certificate of Incorporation or these Bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

---

### **3.2 NUMBER**

The Board shall consist of one or more members, each of whom shall be a natural person. Unless the certificate of incorporation fixes the number of directors, the number of directors shall be determined from time to time by resolution of the Board. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

### **3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS**

Except as provided in Section 3.4 of these Bylaws, at each annual meeting of stockholders, directors of the corporation shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the Delaware General Corporation Law.

Directors need not be stockholders unless so required by the Certificate of Incorporation or these Bylaws, wherein other qualifications for directors may be prescribed.

Elections of directors need not be by written ballot.

Notwithstanding the foregoing provisions of this Article, each Director shall serve until his successor is duly elected and qualified or until his earlier death, resignation or removal.

### **3.4 RESIGNATION AND VACANCIES**

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

Unless otherwise provided in the Certificate of Incorporation or these Bylaws, vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; however, a vacancy created by the removal of a director by the vote or written consent of the stockholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute a majority of the required quorum), or by the unanimous written consent of all shares entitled to vote thereon. Each director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified.

Unless otherwise provided in the Certificate of Incorporation or these Bylaws:

---

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these Bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

### **3.5 REMOVAL**

Subject to any limitations imposed by law, and unless otherwise provided in the Certificate of Incorporation, the Board of Directors, or any individual Director, may be removed from office at any time by the affirmative vote of the holders of at least a majority of the then outstanding shares of the capital stock of the corporation entitled to vote at an election of Directors.

### **3.6 PLACE OF MEETINGS; MEETINGS BY TELEPHONE**

Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

---

### **3.7 FIRST MEETINGS**

The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

### **3.8 REGULAR MEETINGS**

Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors.

### **3.9 SPECIAL MEETINGS; NOTICE**

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, or in the absence of the chairman of the board by the chief executive officer or any three directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or telegram, it shall be delivered personally or by telephone or to the telegraph corporation at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

### **3.10 QUORUM**

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.10 of these Bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of the Certificate of Incorporation and applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

---

### **3.11 WAIVER OF NOTICE**

Notice of a meeting need not be given to any director (i) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. All such waivers, consents, and approvals shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

### **3.12 ADJOURNMENT**

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

### **3.13 NOTICE OF ADJOURNMENT**

Notice of the time and place of holding an adjourned meeting need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.8 of these Bylaws, to the directors who were not present at the time of the adjournment.

### **3.14 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING**

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

### **3.15 FEES AND COMPENSATION OF DIRECTORS**

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.15 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

### **3.16 APPROVAL OF LOANS TO OFFICERS**

Except to the extent prohibited by law, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

---

## ARTICLE IV

### COMMITTEES

#### **4.1 COMMITTEES OF DIRECTORS**

The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have all the authority of the board, but no such committee shall have the power or authority to (i) amend the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the Bylaws of the corporation; and, unless the board resolution establishing the committee, the Bylaws or the Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

#### **4.2 MEETINGS AND ACTION OF COMMITTEES**

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.6 (place of meetings and meetings by telephone), Section 3.8 (regular meetings), Section 3.9 (special meetings and notice), Section 3.10 (quorum), Section 3.11 (waiver of notice), Section 3.12 (adjournment), Section 3.13 (notice of adjournment), and Section 3.14 (action without meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

---

**ARTICLE V**

**OFFICERS**

**5.1 OFFICERS**

The officers of the corporation shall be a chairman of the board, a chief executive officer, a secretary and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a president, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these Bylaws. Any number of offices may be held by the same person.

**5.2 ELECTION OF OFFICERS**

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these Bylaws, shall be chosen by the board, subject to the rights, if any, of an officer under any contract of employment.

**5.3 SUBORDINATE OFFICERS**

The board of directors may appoint, or may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the board of directors may from time to time determine.

**5.4 REMOVAL AND RESIGNATION OF OFFICERS**

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

**5.5 VACANCIES IN OFFICES**

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.



---

#### **5.6 CHAIRMAN OF THE BOARD**

The chairman of the board, if such an officer be elected, shall serve as the corporation's general manager, and shall have general supervision, direction and control of the corporation's business and its officers, and, if present, preside at meetings of the stockholders and the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these Bylaws. If there is no chief executive officer, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these Bylaws. The chairman of the board shall report to the board of directors.

#### **5.7 CHIEF EXECUTIVE OFFICER**

Subject to such powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the chief executive officer shall, subject to the control of the chairman of the board, or the board of directors if there is no chairman of the board, have general supervision, direction, and control of the business and the officers of the corporation. He or she shall preside at all meetings of the stockholders and the board of directors, in the absence or nonexistence of a chairman of the board. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or these Bylaws.

#### **5.8 PRESIDENT**

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of the president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these Bylaws.

#### **5.9 VICE PRESIDENTS**

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these Bylaws, the president or the chairman of the board.

#### **5.10 SECRETARY**

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these Bylaws. He or she shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these Bylaws.

#### **5.11 CHIEF FINANCIAL OFFICER**

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He or she shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these Bylaws.

### **ARTICLE VI**

#### **INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS**

##### **6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS**

The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of its directors and officers against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.1, a "director" or "officer" of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

---

## **6.2 INDEMNIFICATION OF OTHERS**

The corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

## **6.3 INSURANCE**

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

## **ARTICLE VII**

### **RIGHT OF FIRST REFUSAL**

#### **7.1 RIGHT OF FIRST REFUSAL**

No stockholder shall sell, assign, pledge, or in any manner transfer any of the shares of common stock of the corporation, or any right or interest therein, whether voluntarily or by operation of law, or by gift or otherwise, except by a transfer which meets the requirements hereinafter set forth in this bylaw:

(a) If the stockholder desires to sell or otherwise transfer any of his shares of common stock, then the stockholder shall first give written notice thereof to the corporation. The notice shall name the proposed transferee and state the number of shares to be transferred, the proposed consideration, and all other terms and conditions of the proposed transfer.

(b) For thirty (30) days following receipt of such notice, the corporation shall have the option to purchase all (but not less than all) of the shares specified in the notice at the price and upon the terms set forth in such notice; *provided, however*, that, with the consent of the stockholder, the corporation shall have the option to purchase a lesser portion of the shares specified in said notice at the price and upon the terms set forth therein. In the event of a gift, property settlement or other transfer in which the proposed transferee is not paying the full price for the shares, and that is not otherwise exempted from the provisions of this Section 7.1, the price

---

shall be deemed to be the fair market value of the stock at such time as determined in good faith by the Board of Directors. In the event the corporation elects to purchase all of the shares or, with consent of the stockholder, a lesser portion of the shares, it shall give written notice to the transferring stockholder of its election and settlement for said shares shall be made as provided below in paragraph (d).

(c) The corporation may assign its rights hereunder.

(d) In the event the corporation and/or its assignee(s) elect to acquire any of the shares of the transferring stockholder as specified in said transferring stockholder's notice, the Secretary of the corporation shall so notify the transferring stockholder and settlement thereof shall be made in cash within thirty (30) days after the Secretary of the corporation receives said transferring stockholder's notice; provided, that if the terms of payment set forth in said transferring stockholder's notice were other than cash against delivery, the corporation and/or its assignee(s) shall pay for said shares on the same terms and conditions set forth in said transferring stockholder's notice.

(e) In the event the corporation and/or its assignees(s) do not elect to acquire all of the shares specified in the transferring stockholder's notice, said transferring stockholder may, within the sixty-day period following the expiration of the option rights granted to the corporation and/or its assignees(s) herein, transfer the shares specified in said transferring stockholder's notice that were not acquired by the corporation and/or its assignees(s) as specified in said transferring stockholder's notice. All shares so sold by said transferring stockholder shall continue to be subject to the provisions of this bylaw in the same manner as before said transfer.

(f) Anything to the contrary contained herein notwithstanding, the following transactions shall be exempt from the provisions of this bylaw:

(i) A stockholder's transfer of any or all shares held either during such stockholder's lifetime or on death by will or intestacy to such stockholder's immediate family or to any custodian or trustee for the account of such stockholder or such stockholder's immediate family or to any limited partnership of which the stockholder, members of such stockholder's immediate family or any trust for the account of such stockholder or such stockholder's immediate family will be the general or limited partner(s) of such partnership. "Immediate family" as used herein shall mean a spouse, lineal descendant, father, mother, brother, or sister of the stockholder making such transfer.

(ii) A stockholder's bona fide pledge or mortgage of any shares with a commercial lending institution; provided, that any subsequent transfer of such shares by such commercial lending institution shall be conducted in the manner set forth in this bylaw.

(iii) A stockholder's transfer of any or all of such stockholder's shares to the corporation or to any other stockholder of the corporation.

(iv) A stockholder's transfer of any or all of such stockholder's shares to a person who, at the time of such transfer, is an officer or director of the corporation.

(v) A corporate stockholder's transfer of any or all of its shares pursuant to and in accordance with the terms of any merger, consolidation or reclassification of shares or capital reorganization of the corporate stockholder, or pursuant to a sale of all or substantially all of the stock or assets of such corporate stockholder.

(vi) A corporate stockholder's transfer of any or all of its shares to any or all of its stockholders.

(vii) A transfer by a stockholder that is a limited or general partnership to any or all of its partners or former partners.

(viii) A transfer by a stockholder that is a limited liability company to any or all of its members or former members.

In any such case, the transferee, assignee or other recipient shall receive and hold such stock subject to the provisions of this bylaw, and there shall be no further transfer of such stock except in accord with this bylaw.

(g) The provisions of this bylaw may be waived with respect to any transfer either by the corporation, upon duly authorized action of its Board of Directors, or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation (excluding the votes represented by those shares to be transferred by the transferring stockholder). This bylaw may be amended or repealed either by a duly authorized action of the Board of Directors or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation.

(h) Any sale or transfer, or purported sale or transfer, of common stock of the corporation shall be null and void unless the terms, conditions, and provisions of this bylaw are strictly observed and followed.

(i) The foregoing right of first refusal shall terminate on either of the following dates, whichever shall first occur:

(i) On October 1, 2017; or

(ii) Upon the date securities of the corporation are first offered to the public pursuant to a registration statement filed with, and declared effective by, the United States Securities and Exchange Commission under the Securities Act of 1933, as amended.

(j) The certificates representing shares of stock of the corporation transferred or issued after October , 2007 shall bear on their face the following legend so long as the foregoing right of first refusal remains in effect:

"The shares represented by this Certificate are subject to a right of first refusal option in favor of the corporation and/or its Assignee(s), as provided in the Bylaws of the corporation."

---

**ARTICLE VIII**

**RECORDS AND REPORTS**

***8.1 MAINTENANCE AND INSPECTION OF RECORDS***

The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these Bylaws as amended to date, accounting books and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

The officer who has charge of the stock ledger of a corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

***8.2 INSPECTION BY DIRECTORS***

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

---

### **8.3 ANNUAL STATEMENT TO STOCKHOLDERS**

The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

### **8.4 REPRESENTATION OF SHARES OF OTHER CORPORATIONS**

The chairman of the board, the president, any vice president, the chief financial officer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

## **ARTICLE IX**

### **GENERAL MATTERS**

#### **9.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING**

For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any other lawful action (other than action by stockholders by written consent without a meeting), the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided by law.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

#### **9.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS**

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

#### **9.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED**

The board of directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific

---

instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

#### ***9.4 STOCK CERTIFICATES; PARTLY PAID SHARES***

The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the chief financial officer, the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

#### ***9.5 SPECIAL DESIGNATION ON CERTIFICATES***

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.



---

#### **9.6 LOST CERTIFICATES**

Except as provided in this Section 8.6, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

#### **9.7 CONSTRUCTION; DEFINITIONS**

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

### **ARTICLE X**

#### **AMENDMENTS**

The original or other Bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its Certificate of Incorporation, confer the power to adopt, amend or repeal Bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal Bylaws.

### **ARTICLE XI**

#### **DISSOLUTION**

If it should be deemed advisable in the judgment of the board of directors of the corporation that the corporation should be dissolved, the board, after the adoption of a resolution to that effect by a majority of the whole board at any meeting called for that purpose, shall cause notice to be mailed to each stockholder entitled to vote thereon of the adoption of the resolution and of a meeting of stockholders to take action upon the resolution.

At the meeting a vote shall be taken for and against the proposed dissolution. If a majority of the outstanding stock of the corporation entitled to vote thereon votes for the proposed dissolution, then a certificate stating that the dissolution has been authorized in accordance with the provisions of Section 275 of the General Corporation Law of Delaware and setting forth the names and residences of the directors and officers shall be executed, acknowledged, and filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such certificate's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved.

Whenever all the stockholders entitled to vote on a dissolution consent in writing, either in person or by duly authorized attorney, to a dissolution, no meeting of directors or stockholders shall be necessary. The consent shall be filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such consent's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved. If the consent is signed by an attorney, then the original power of attorney or a photocopy thereof shall be attached to and filed with the consent. The consent filed with the Secretary of State shall have attached to it the affidavit of the secretary or some other officer of the corporation stating that the consent has been signed by or on behalf of all the stockholders entitled to vote on a dissolution; in addition, there shall be attached to the consent a certification by the secretary or some other officer of the corporation setting forth the names and residences of the directors and officers of the corporation.

## **ARTICLE XII**

### **CUSTODIAN**

#### ***12.1 APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES***

The Court of Chancery, upon application of any stockholder, may appoint one or more persons to be custodians and, if the corporation is insolvent, to be receivers, of and for the corporation when:

(i) at any meeting held for the election of directors the stockholders are so divided that they have failed to elect successors to directors whose terms have expired or would have expired upon qualification of their successors; or

(ii) the business of the corporation is suffering or is threatened with irreparable injury because the directors are so divided respecting the management of the affairs of the corporation that the required vote for action by the board of directors cannot be obtained and the stockholders are unable to terminate this division; or

(iii) the corporation has abandoned its business and has failed within a reasonable time to take steps to dissolve, liquidate or distribute its assets.

#### ***12.2 DUTIES OF CUSTODIAN***

The custodian shall have all the powers and title of a receiver appointed under Section 291 of the General Corporation Law of Delaware, but the authority of the custodian shall be to continue the business of the corporation and not to liquidate its affairs and distribute its assets, except when the Court of Chancery otherwise orders and except in cases arising under Sections 226(a)(3) or 352(a)(2) of the General Corporation Law of Delaware.

---

**CERTIFICATE OF ADOPTION**  
**OF THE AMENDED AND RESTATED BYLAWS OF**  
**FUNDAMENTAL APPLIED BIOLOGY, INC.**

The undersigned, Dan Gold, certifies as follows:

1. He is the duly elected Chief Executive Officer of Fundamental Applied Biology, Inc., a Delaware corporation, (the "Company").
2. That the foregoing Amended and Restated Bylaws of the Company, comprising of twenty-five (25) pages, were adopted by the Company on October 11, 2007.

IN WITNESS WHEREOF, the undersigned has signed this certificate as of this 11th day of October, 2007.

/s/ Daniel Gold  
\_\_\_\_\_  
Dan Gold, Chief Executive Officer

---

**CERTIFICATE OF AMENDMENT**

**OF THE BYLAWS OF**

**SUTRO BIOPHARMA, INC.**

The undersigned, Ken Clark, hereby certifies as follows:

1. He is the duly elected Secretary of Sutro Biopharma, Inc., a Delaware corporation (the "Company").

2. By resolutions duly adopted by the Company's Board of Directors effective November 5, 2010, Section 3.9 of Article III of the Company's Bylaws is hereby amended and restated to read in its entirety as follows:

"3.9. *Special Meetings; Notice.* Special meetings of the board of directors for any purpose or purposes may be called at any time by any director."

IN WITNESS WHEREOF, the undersigned has executed this certificate as of this 5th day of November 2010.

/s/ Kenneth A. Clark

Kenneth A. Clark, Secretary

**SUTRO**  
BIOPHARMA

NUMBER

SB

SHARES

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

SEE REVERSE FOR CERTAIN DEFINITIONS AND LEGENDS

CUSIP 869367 10 2

**This certifies that**

is the record holder of

**FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, \$0.001 PAR VALUE PER SHARE, OF  
SUTRO BIOPHARMA, INC.**

transferable on the books of the corporation in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

CHIEF EXECUTIVE OFFICER



CHIEF FINANCIAL OFFICER

BY: \_\_\_\_\_

COUNTERSIGNED AND REGISTERED  
AMERICAN STOCK TRANSFER & TRUST COMPANY, LLC  
(BROOKLYN, NY)  
TRANSFER AGENT  
AND REGISTRAR

AUTHORIZED SIGNATURE

The Corporation shall furnish without charge to each stockholder who so requests a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock of the Corporation or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Such requests shall be made to the Corporation's Secretary at the principal office of the Corporation.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, OR DESTROYED THE CORPORATION WILL REQUIRE A BOND INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common  
TEN ENT - as tenants by the entireties  
JT TEN - as joint tenants with right of survivorship and not as tenants in common  
COM PROP - as community property

UNIF GIFT MIN ACT - ..... Custodian .....  
(Cust) (Minor)  
under Uniform Gifts to Minors Act .....  
(State)  
UNIF TRF MIN ACT - ..... Custodian (until age .....)  
(Cust) (Minor)  
under Uniform Transfers to Minors Act .....  
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ shares of the capital stock represented by within Certificate, and do hereby irrevocably constitute and appoint

\_\_\_\_\_ attorney-in-fact to transfer the said stock on the books of the within named Corporation with full power of the substitution in the premises.

Dated \_\_\_\_\_

X \_\_\_\_\_  
X \_\_\_\_\_

Signature(s) Guaranteed:

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

By \_\_\_\_\_

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION, (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15. GUARANTEES BY A NOTARY PUBLIC ARE NOT ACCEPTABLE. SIGNATURE GUARANTEES MUST NOT BE DATED.

## SUTRO BIOPHARMA, INC.

## THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

This Third Amended and Restated Investors' Rights Agreement (the "Agreement") is made as of May 24, 2018, by and among Sutro Biopharma, Inc., a Delaware corporation (the "Company"), and each of the persons and entities who have purchased shares of Series A Preferred Stock (the "Series A Preferred"), Series B Preferred Stock (the "Series B Preferred"), Series C Preferred Stock (the "Series C Preferred"), Series C-2 Preferred Stock (the "Series C-2 Preferred"), Series D Preferred Stock (the "Series D Preferred"), Series D-2 Preferred Stock (the "Series D-2 Preferred") and Series E Preferred Stock (the "Series E Preferred," and, together with the Series A Preferred, Series B Preferred, Series C Preferred, Series C-2 Preferred, Series D Preferred and Series D-2 Preferred, the "Preferred Stock") of the Company (individually, a "Purchaser," and collectively, the "Purchasers").

## RECITALS

A. The Purchasers hold shares of Preferred Stock and/or shares of Common Stock and are parties to that certain Second Amended and Restated Investors' Rights Agreement dated as of September 26, 2014, by and among the Company and the Purchasers (the "Prior Agreement").

B. The Purchasers that have executed this Agreement are holders of a majority of the outstanding Preferred Stock (voting as a single class and on *as-is*-converted basis) and desire to amend and restate the Prior Agreement in its entirety and to accept the rights created pursuant to this Agreement in lieu of the rights granted to them under the Prior Agreement.

C. Concurrently with the execution of this Agreement, the Company and certain Purchasers are entering into a Series E Preferred Stock Purchase Agreement of even date herewith (the "Purchase Agreement"), under which certain of the Company's and such Purchasers' obligations are conditioned upon the execution and delivery of this Agreement by the Purchasers and the Company.

NOW, THEREFORE, the parties agree as follows:

## AGREEMENT

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"Celgene" means Celgene Corporation, a Delaware corporation.

"Commission" shall mean the Securities and Exchange Commission or any successor agency.

"Derivative Securities" shall mean any securities or rights convertible into, or exercisable or exchangeable for, Common Stock, including options and warrants.

---

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, or any successor law thereto.

“Holder” shall mean each Purchaser, Silicon Valley Bank (“SVB”), and any transferee of Registrable Securities who pursuant to Section 15 below is entitled to registration rights hereunder.

“Major Investor” shall mean each Holder who holds an aggregate of at least 15,659,255 shares of Preferred Stock, as adjusted for stock splits, stock dividends or distributions, recapitalizations and similar events.

“New Securities” shall mean, collectively, equity securities of the Company (other than those securities excluded from the definition of Additional Shares of Common Stock in the Restated Certificate), whether or not currently authorized, as well as rights, options, or warrants to purchase such equity securities, or securities of any type whatsoever that are, or may become, convertible or exchangeable into or exercisable (directly or indirectly) for such equity securities.

“Pro Rata Securities” means, with respect to a Major Investor, the Common Stock issued and held by such Major Investor, or issuable upon conversion of the Preferred Stock and any other Derivative Securities then held by such Major Investor.

“Purchaser” shall mean each person or entity who has acquired shares of Preferred Stock and who is a signatory to this Agreement or who holds Registrable Securities and may become a signatory pursuant to Section 22 or Section 23(b) hereof.

“Registrable Securities” shall mean: (i) shares of the Company’s Common Stock issued or issuable upon the conversion of the Preferred Stock; (ii) any Common Stock of the Company issued or issuable in respect of shares of the Preferred Stock; (iii) shares of the Company’s Common Stock issued or issuable upon any conversion of the Preferred Stock upon any stock split, stock dividend, recapitalization, or similar event; and (iv) any shares of the Company’s Common Stock issued or issuable upon conversion or exercise of any convertible security for which subsequent registration rights are granted in accordance with Section 22 or Section 23(b); provided, however, that for purposes of Section 5, the Warrant Stock shall not be deemed to be Registrable Securities and the Warrant Holders shall not be deemed to be Holders by virtue of the Warrant Stock; and provided, further, that Registrable Securities shall not include shares of Common Stock that have been sold to or through a broker or dealer or underwriter in a public distribution or public securities transaction, or sold in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act under Section 4(a) (1) thereof so that all transfer restrictions and restrictive legends with respect thereto, if any, are removed upon the consummation of such sale or Registrable Securities sold by a person in a transaction in which rights under this Agreement are not assigned.

The terms “register,” “registered” and “registration” refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.



“Registration Expenses” shall mean all expenses incurred by the Company in complying with Sections 5, 6 and 7 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, reasonable fees and disbursements of one special counsel to the Holders (not to exceed \$25,000), blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration, but excluding all Selling Expenses.

“Restated Certificate” shall mean the Company’s Seventh Amended and Restated Certificate of Incorporation, as amended and restated and in effect from time to time.

“Restricted Securities” shall mean the securities of the Company required to bear the legend set forth in Section 3 hereof (or any similar legend).

“Securities Act” shall mean the Securities Act of 1933, as amended, or any successor law thereto.

“Selling Expenses” shall mean all underwriting discounts, selling commissions, and stock transfer taxes applicable to the securities registered by the Holders and any fees of counsel to any Holder, other than the one special counsel to the Holders referred to in the definition of “Registration Expenses” above.

“Warrant Holders” means the undersigned holders of outstanding warrants to purchase Preferred Stock and Common Stock on the date of this Agreement, including SVB, Frederick J. Ruegsegger, John P. Walker, Munro W. Pitt and Daniel H. Petree.

“Warrant Stock” means the Common Stock issued or issuable, directly or indirectly, upon exercise and/or conversion of the warrants to purchase Preferred Stock and Common Stock held by the Warrant Holders.

2. Restrictions on Transferability. The Restricted Securities shall not be transferable except upon the conditions specified in this Agreement, which conditions are intended to ensure compliance with the provisions of the Securities Act. Until the Company’s initial public offering pursuant to a registration statement filed with and declared effective by the Commission under the Securities Act (the “IPO”), the Restricted Securities shall not, without the prior written consent of the Company, be transferred to any entity (or any affiliate thereof) which is engaged in the development, marketing or sale of products that are, in the good faith judgment of the Board of Directors, the same or similar to those of the Company, and any such attempted transfer shall be void *ab initio*; provided, however, that nothing in this Section 2 shall (i) prohibit any holder of Restricted Securities from transferring such shares to an Affiliate (as defined in the Purchase Agreement) of such holder or (ii) prohibit any Purchaser from acquiring additional shares of the Company’s capital stock pursuant to such Purchaser’s exercise of its rights under the Third Amended and Restated Right of First Refusal and Co-Sale Agreement dated even herewith, as may be amended. Each holder of Restricted Securities will cause any proposed transferee of the Restricted Securities held by such holder to agree to take and hold such Restricted Securities subject to the provisions and upon the conditions specified in this Agreement.

3. Restrictive Legend. Each certificate representing (i) the Preferred Stock, (ii) shares of the Company's Common Stock issued upon conversion of the Preferred Stock, and (iii) any other securities issued in respect of the Preferred Stock (or Common Stock issued upon conversion of the Preferred Stock) upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of Section 4 below) be stamped or otherwise imprinted with a legend in substantially the following form (in addition to any legend required under applicable state securities laws):

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF THAT CERTAIN THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT BY AND AMONG THE COMPANY AND THE STOCKHOLDERS LISTED THEREIN, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

Each Purchaser and Holder consents to the Company's making a notation on its records and giving instructions to any transfer agent of the Preferred Stock or the Common Stock in order to implement the restrictions on transfer established in this Section.

4. Notice of Proposed Transfers. The holder of each certificate representing Restricted Securities by acceptance thereof agrees to comply in all respects with the provisions of this Section 4. Prior to any proposed transfer of any Restricted Securities, unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the holder thereof shall give at least 10 days prior written notice to the Company of such Holder's intention to effect such transfer. Each such notice shall describe the manner and circumstances of the proposed transfer in sufficient detail, and shall be accompanied by either (a) a written opinion of legal counsel, who shall be reasonably satisfactory to the Company, addressed to the Company and reasonably satisfactory in form and substance to the Company's counsel, to the effect that the proposed transfer of the Restricted Securities may be effected without registration under the Securities Act or (b) a "No Action" letter from the Commission to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the holder of such Restricted Securities shall be entitled to transfer such Restricted Securities in accordance with the terms of the notice delivered by the holder to the Company. Notwithstanding the foregoing, no such opinion of legal counsel or "No Action" letter shall be necessary for a transfer by a Holder (i) which is a partnership to its partners or former partners in accordance with partnership interests, (ii) which is a limited liability company to its members or former members in accordance with their interest in the limited liability company, (iii) who is an individual to the Holder's family members or domestic partner, or to a trust for the benefit of an individual

Holder, such individual Holder's family member or domestic partner, (iv) to an affiliate of such Holder, (v) a transferee who acquires at least 500,000 shares of Registrable Securities in accordance with Section 15 hereof or (vi) which is in compliance with Rule 144 of the Securities Act, provided, that in each case the transferee will be subject to and agrees to be subject to the restrictions of this Agreement to the same extent as if such transferee were an original party hereunder. Each certificate evidencing the Restricted Securities transferred as above provided shall bear the appropriate restrictive legends described above, except that such certificate shall not bear any such restrictive legend if in the opinion of counsel for the Company such legend is not required.

5. Requested Registration.

(a) Request for Registration. If at any time after the earlier of (i) the expiration of 180 days following the IPO and (ii) May 24, 2020, the Company shall receive from any Holder or group of Holders of Registrable Securities, representing not less than a majority of the then outstanding Registrable Securities, a written request that the Company effect any registration, qualification or compliance with respect to Registrable Securities representing at least a majority of the then outstanding Registrable Securities held the Holders, the Company will:

(i) promptly give written notice of the proposed registration, qualification, or compliance to all other Holders; and

(ii) as soon as practicable, use its best efforts to effect within 180 days of the receipt of such request such registration, qualification or compliance (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within 20 days after receipt of such written notice from the Company;

provided, however, that the Company shall not be obligated to take any action to effect any such registration, qualification or compliance pursuant to this Section:

(A) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(B) if the initiating Holders propose to sell Registrable Securities at an aggregate offering price, before deduction of underwriters' discounts and expenses, of less than \$5,000,000;

(C) if the Holders requesting such a registration propose to dispose of shares that may be immediately registered on a Form S-3;

(D) during the 180 day period immediately following the effective date of any registration statement pertaining to securities of the Company, including the Company's initial registered public offering, (other than a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan); or

(E) after the Company has effected two such registrations pursuant to this Section and such registration has been declared or ordered effective.

Subject to the foregoing clauses, the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable after receipt of the request or requests of any Holder or Holders. If, however, the Company shall furnish within 30 days after receiving a request for registration pursuant to this Section 5(a) to the Holder or Holders requesting a registration statement pursuant to this Section a certificate signed by the Chief Executive Officer of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer such filing for a period of not more than 90 days after receipt of the request of the Holder or Holders requesting such registration; provided, however, that the Company may not utilize this right more than once in any 12-month period and that such filing shall not be deferred for an aggregate of more than 90 days in any 12-month period and provided, further, that the Company shall not register any securities for its own account or that of any other stockholder during such period other than pursuant to (i) a registration relating to the sale of securities to employees of the Company or a subsidiary pursuant to a stock option, stock purchase or similar plan or (ii) a registration relating to a transaction pursuant to Rule 145 promulgated under the Securities Act.

The Company shall not be required to maintain and keep any such registration under this Section 5 after the earlier to occur of (a) 90 days from the date of effectiveness of such registration statement or (b) such date as the disposition of the Registrable Securities subject to such registration has been completed.

(b) Underwriting. If the Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request and the Company shall include such information in its written notice to the other Holders. The right of any Holder to registration pursuant to this Section shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein.

The Company shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Holders of a majority of the Registrable Securities proposed by such Holders to be distributed through such underwriting. Notwithstanding any other provision of this Section, if the managing underwriter advises the Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then, subject to the provisions of Section 5(a), the Company shall so advise all Holders and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders of Registrable Securities

requesting inclusion in the registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities originally requested by such Holders to be included in the registration statement. No Registrable Securities excluded from the underwriting by reason of the managing underwriter's marketing limitation shall be included in such registration.

If the managing underwriter has not limited the number of Registrable Securities to be underwritten, the Company may include securities for its own account or for, the account of others in such registration if the underwriter so agrees and if the number of Registrable Securities which would otherwise have been included in such registration and underwriting will not thereby be limited, and provided that the Company or the other selling stockholders shall bear an equitable share of the Registration Expenses in connection with such registration and underwriting.

If any Holder of Registrable Securities disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriter and the other Holders. The Registrable Securities and/or other securities so withdrawn shall also be withdrawn from registration; provided, however, that if, by the withdrawal of such Registrable Securities, a greater number of Registrable Securities held by other Holders may be included in such registration (up to the maximum of any limitation imposed by the underwriters), then the Company shall offer to all Holders who have included Registrable Securities in the registration the right to include additional Registrable Securities in the same proportion used in determining the underwriter limitation in this Section. If the registration does not become effective due to the withdrawal of Registrable Securities, then either (1) the Holders requesting registration shall reimburse the Company for expenses incurred in complying with the request or (2) the aborted registration shall be treated as effected for purposes of Section 5(a)(E).

#### 6. Company Registration.

(a) Notice of Registration. If the Company shall determine to register any of its securities other than: (i) the IPO, (ii) a registration pursuant to Section 5 of this Agreement, (iii) a registration relating solely to employee benefit plans or (iv) a registration relating solely to a transaction pursuant to Rule 145 promulgated under the Securities Act, the Company will:

(i) promptly give to each Holder written notice thereof; and

(ii) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within 20 days after receipt of such written notice from the Company, by any Holder or Holders.

(b) Cut-back and Allocation. Notwithstanding any other provision of this Section, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the number of Registrable Securities to be included in the registration and underwriting; provided, however, that the managing underwriter shall include in such offering at least 40% of the Registrable

---

Securities requested to be included in such offering and provided, further, that no party other than the Company or the Holders of Registrable Securities requesting such registration shall be permitted to sell shares in such registration. In such event, the Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders of Registrable Securities requesting inclusion in the registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities originally requested by such Holders to be included in the registration statement. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the managing underwriter. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

(c) In no event shall the shares of any other selling stockholders be included in such registration that would reduce the number of shares that may be included by the selling Holders of Registrable Securities without the written consent of Holders of Registrable Securities holding a majority of the Registrable Securities proposed to be sold in the offering.

(d) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The Registration Expenses of such registration shall be borne by the Company in accordance with Section 8.

7. Registration on Form S-3. The Company shall use its best efforts to qualify for registration on FormS-3, and to that end, the Company shall comply with the reporting requirements of the Exchange Act. After the Company has qualified for the use of Form S-3, each Holder shall have the right to request an unlimited number of registrations on Form S-3 (such requests shall be in writing and shall state the number of shares of Registrable Securities to be disposed of and the intended method of disposition of such shares by each such Holder), subject to the following limitations:

(i) the Company shall not be obligated to cause a registration on FormS-3 to become effective prior to 180 days following the effective date of a Company-initiated registration (other than a registration effected solely to qualify an employee benefit plan or to effect a business combination pursuant to Rule 145 promulgated under the Securities Act);

(ii) the Company shall not be obligated to cause a registration on FormS-3 to become effective prior to expiration of 180 days following the effective date of the most recent registration pursuant to a request under Section 5 of this Agreement or pursuant to a request by a holder of registration rights under any other agreement of the Company granting Form S-3 demand registration rights;

(iii) the Company shall not be required to effect a registration on FormS-3 unless the Holder or Holders requesting registration propose to dispose of shares of Registrable Securities having an aggregate disposition price (before deduction of underwriting discounts and expenses of sale) of at least \$3,000,000;

---

(iv) the Company shall not be required to effect more than two registrations on FormS-3 in any 12 month period;

(v) the Company shall not be required to maintain and keep any such registration on FormS-3 effective for a period greater than the period equal to the shorter of (x) 90 days or (y) that time reasonably necessary to permit the disposition of the Registrable Securities subject to such registration; and

(vi) the Company may defer the filing of such registration statement for a period of up to 90 days after receipt of the request of the Holder or Holders requesting such registration, if in the good faith judgment of the Company's Board of Directors, it would be seriously detrimental to the Company and its stockholders if the registration were filed, provided, however, that the Company may not utilize this right more than twice in any 12-month period and that such filing shall not be deferred for an aggregate of more than 120 days in any 12-month period and provided, further, that the Company shall not register any securities for its own account or that of any other stockholder during such period other than pursuant to (i) a registration relating to the sale of securities to employees of the Company or a subsidiary pursuant to a stock option, stock purchase or similar plan or (ii) a registration relating to a transaction pursuant to Rule 145 promulgated under the Securities Act.

The Company shall give notice to all Holders of the receipt of a request for registration pursuant to this Section and shall provide a reasonable opportunity for all such other Holders to participate in the registration. Subject to the foregoing, the Company will use its best efforts to effect promptly the registration of all shares of Registrable Securities on Form S-3 to the extent requested by the Holder or Holders thereof for purposes of disposition.

8. Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to either Section 5, Section 6, or Section 7 shall be borne by the Company. All Selling Expenses relating to securities registered by the Holders pursuant to either Section 5, Section 6, or Section 7 shall be borne by the Holders of such securities pro rata on the basis of the number of shares so registered. Notwithstanding the foregoing, the Company shall not be required to pay for Registration Expenses pursuant to Section 5 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (which Holders shall bear such expenses), unless the Holders of a majority of the Registrable Securities agree that the aborted registration shall be treated as effected for purposes of Section 5(a)(E); provided, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request, then the Holders shall not be required to pay any of such Registration Expenses and shall retain their rights pursuant to Section 5.

9. Registration Procedures. In the case of each registration, qualification or compliance effected by the Company pursuant to this Agreement, the Company will keep each Holder advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. At its expense the Company will furnish such number of prospectuses and other documents incident thereto as a Holder from time to time may reasonably request.

10. Termination of Registration Rights. The registration rights granted pursuant to this Agreement shall terminate upon the occurrence of a Deemed Liquidation, as defined in the Restated Certificate or as to any Holder of Registrable Securities, at such time after the Company's initial registered public offering as the Registrable Securities held by such Holder may be sold within any 90 day period without restriction pursuant to Rule 144 promulgated under the Securities Act.

11. Lock-up Agreement. In consideration for the Company agreeing to its obligations under this Agreement, each Holder of Registrable Securities and each transferee pursuant to Section 15 hereof agrees, in connection with the initial registered public offering of the Company's securities, upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, not to sell, offer, pledge, contract to sell, grant any option or contract to purchase, purchase any option or contract to sell, grant any right or warrant to purchase, lend or otherwise transfer or encumber, directly or indirectly, any securities of the Company, nor shall the Holder enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any securities of the Company, during the period from the filing of the first registration statement of the Company filed under the Securities Act that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act through the end of the 180-day period following the effective date of such registration statement (or such other period as may be requested by the underwriters to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto); provided, that each officer and director of the Company and each holder of at least 1% of the Company's voting securities are similarly bound. Each Holder agrees that the Company may instruct its transfer agent to place stop-transfer notations in its records to enforce the provisions of this Section 11. This Section 11 shall supersede any conflicting provision of Section 5 or Section 7 above. The foregoing provisions of this Section 11 shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement. Notwithstanding any other provision of this Agreement, the Company may assign each Holder's obligations under this Section 11 to any underwriter of the Company's initial public offering of securities.

12. Indemnification.

(a) The Company will indemnify each Holder, each of its officers, directors and partners and such Holder's legal counsel and independent accountants, and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages and liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a



---

material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by the Company of the Securities Act or the Exchange Act or securities act of any state or any rule or regulation thereunder, and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each of its officers, directors and partners and such Holder's legal counsel and independent accountants, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder or underwriter and stated to be specifically for use therein; and provided, further, that the Company will not be liable to any such person or entity with respect to any such untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus that is corrected in the final prospectus filed with the Commission pursuant to Rule 424(b) promulgated under the Securities Act (or any amendment or supplement to such prospectus) if the person asserting any such loss, claim, damage or liability purchased securities but was not sent or given a copy of the prospectus (as amended or supplemented) at or prior to the written confirmation of the sale of such securities to such person in any case where such delivery of the prospectus (as amended or supplemented) is required by the Securities Act, unless such failure to deliver the prospectus (as amended or supplemented) was a result of the Company's failure to provide such prospectus (as amended or supplemented).

(b) Each Holder will, severally and not jointly, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors and officers and its legal counsel and independent accountants, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act, and each other such Holder, each of its officers, directors and partners and each person controlling such Holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, legal counsel, independent accountants, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder and stated to be specifically for use therein; provided, however, that the obligations of such Holders hereunder shall be limited to an amount equal to the proceeds, net of underwriting discounts and commissions but not expenses, to each such Holder of Registrable Securities sold as contemplated herein.

(c) Each party entitled to indemnification under this Section (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement, except to the extent, but only to the extent, that the Indemnifying Party's ability to defend against such claim or litigation is impaired as a result of such failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) If the indemnification provided for in this Section 12 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission. In no event shall any contribution by a Holder under this Section 12(d) exceed the proceeds, net of underwriting discounts and commissions but not expenses, from the offering received by such Holder.

13. Information by Holder. The Holder or Holders of Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

14. Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Securities to the public without registration, after such time as a public market exists for the Common Stock of the Company, the Company agrees to use its best efforts to:

- (a) make and keep public information available, as those terms are understood and defined in Rule 144 promulgated under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;
- (b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and
- (c) furnish to Holders upon reasonable request a written statement as to its compliance with the reporting requirements of Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing such Holder to sell any such securities without registration.

15. Transfer of Rights. Provided that the Company is given at least 10 days prior written notice of such assignment and the transferee or assignee agrees to be bound by all provisions of this Agreement, the rights granted hereunder to cause the Company to register securities may be assigned to (i) a transferee or assignee who acquires at least 500,000 shares of Registrable Securities (appropriately adjusted for stock splits, recapitalizations and like after the date hereof), (ii) a stockholder, subsidiary, parent, general partners, limited partner, retired partner or member of a Holder of Registrable Securities, (iii) a family member or trust for the benefit of any individual Holder of Registrable Securities or (iv) an affiliate of such Holder.

16. Information and Inspection Rights.

(a) Delivery of Financial Statements. The Company shall deliver to each Major Investor:

(i) as soon as reasonably practicable, but in any event within 180 days after the end of the fiscal year, (A) a balance sheet as of the end of each fiscal year of the Company, (B) statements of income and of cash flows for such year, and a comparison between (x) the actual amounts as of and for such fiscal year and (y) the comparable amounts for the prior year and as included in the Budget (as defined in Section 16(a)(iv)) for such year, with an explanation of any material differences between such amounts and a schedule as to the sources and applications of funds for such year, and (C) a statement of stockholders' equity as of the end of such year, in each case audited and certified by independent public accountants of nationally recognized standing selected by the Board of Directors of the Company;

(ii) as soon as reasonably practicable, but in any event within 30 days after the end of each of the first three quarters of each fiscal year of the Company, unaudited statements of income and of cash flows for such fiscal quarter, and an unaudited balance sheet as of the end of such fiscal quarter, all prepared in accordance with GAAP (except that the financial report may (A) be subject to normal year-end GAAP adjustments and (B) not

contain all footnotes thereto that may be required in accordance with GAAP), and a current capitalization table of the Company setting forth the fully diluted capitalization of the Company, in reasonable detail;

(iii) as soon as reasonably practicable, but in any event within 30 days of the end of each month, an unaudited income statement and statement of cash flows for such month, and an unaudited balance sheet as of the end of such month, all prepared in accordance with GAAP (except that the financial report may (i) be subject to normal year-end GAAP adjustments and (ii) not contain all footnotes thereto that may be required in accordance with GAAP);

(iv) as soon as practicable, but in any event 30 days before the end of each fiscal year, a budget and business plan for the next fiscal year (collectively, the "Budget"), prepared on a monthly basis, including balance sheets, income statements, and statements of cash flow for such months and, promptly after prepared, any other budgets or revised budgets prepared by the Company; and

(v) such other information relating to the financial condition, business, prospects, or corporate affairs of the Company as any Major Investor may from time to time reasonably request; provided, however, that the Company shall not be obligated under this Section 16(a) to provide information (A) that the Company reasonably determines in good faith to be a trade secret or confidential information (unless covered by an enforceable confidentiality agreement, in form reasonably acceptable to the Company) or (B) the disclosure of which would adversely affect the attorney-client privilege between the Company and its counsel.

If, for any period, the Company has any subsidiary whose accounts are consolidated with those of the Company, then in respect of such period the financial statements delivered pursuant to the foregoing sections shall be the consolidated and consolidating financial statements of the Company and all such consolidated subsidiaries.

(b) Inspection. The Company shall permit each Major Investor, at such Major Investor's expense and upon three business days' prior written notice, to visit and inspect the Company's properties; examine its books of account and records; and discuss the Company's affairs, finances, and accounts with its officers, during normal business hours of the Company as may be reasonably requested by the Major Investor; provided, however, that the Company shall not be obligated pursuant to this Section 16(b) to provide access to any information that it reasonably considers to be a trade secret or confidential information (unless covered by an enforceable confidentiality agreement, in form reasonably acceptable to the Company) or the disclosure of which would adversely affect the attorney-client privilege between the Company and its counsel.

(c) Termination of Information Rights. The covenants set forth in Section 16 shall terminate and be of no further force or effect upon the earliest to occur of (i) the consummation of the Qualified Public Offering, as defined in the Restated Certificate, (ii) the date upon which the Company first becomes subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act, and (iii) a Liquidation or Deemed Liquidation, as such terms are defined in the Restated Certificate.

(d) Confidentiality. Each Major Investor agrees that (x) such Major Investor will keep confidential and will not disclose or divulge any confidential information obtained from the Company pursuant to the terms of this Agreement (including notice of the Company's intention to file a registration statement) to any person other than the employees, officers and directors of itself and its Affiliates who are subject to confidentiality obligations at least as restrictive as are contained herein and have a need to know in connection with monitoring its investment in the Company and/or evaluating the appropriateness of engaging the Company in discussions relating to a potential transaction and (y) such Major Investor will not disclose any financial information or pricing terms from other completed or potential transactions of the Company to any third party in connection with evaluating a potential transaction with the Company other than a transaction primarily for equity financing purposes, or use for any purpose (other than to monitor its investment in the Company and/or to evaluate the appropriateness of engaging the Company in discussions relating to a potential transaction) any financial information or pricing terms from other completed or potential transactions of the Company, unless, in the case of each of clauses (x) and (y), such confidential information (a) is known or becomes known to the public in general (other than as a result of a breach of this Section 16 by such Major Investor), (b) is or has been independently developed or conceived by the Major Investor without use of the Company's confidential information, or (c) is or has been made known or disclosed to the Major Investor by a third party who is not known by such Major Investor to have breached an obligation of confidentiality such third party has to the Company; provided, however, that a Major Investor may disclose confidential information (i) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company and/or evaluating the appropriateness of engaging the Company in discussions relating to a potential transaction; (ii) to any prospective purchaser of any Registrable Securities from such Major Investor, if such prospective purchaser agrees in writing to be bound by the provisions of this Section 16 pursuant to an agreement which lists the Company as a third party beneficiary; (iii) to any affiliate, partner, member, stockholder, or wholly-owned subsidiary of such Major Investor in the ordinary course of business, including but not limited to evaluating the appropriateness of engaging the Company in discussions relating to a potential transaction, provided, however, that such Major Investor informs such person that such information is confidential and directs such person to maintain the confidentiality of such information; (iv) as may otherwise be required by law, court order or stock exchange rule, provided, further, that the Major Investor promptly notifies the Company of any such required disclosure and takes reasonable steps to minimize the extent of any such required disclosure; or (v) to establish any rights or defenses, or enforce any obligations, under this Agreement; provided, further, that the Major Investors shall not disclose any financial information or pricing terms from other completed or potential transactions of the Company to any third party in connection with evaluating a potential transaction with the Company other than a transaction primarily for equity financing purposes. The Company acknowledges that certain of the Major Investors are in the business of venture capital investing and therefore review the business plans and related proprietary information of many enterprises, including enterprises that may have products or services that compete directly or indirectly with those of the Company. Nothing in this Agreement shall preclude or in any way restrict the Major Investors or any Affiliate thereof from investing or participating in any particular enterprise, regardless of whether such enterprise has products or services that compete with those of the Company.

17. Rights to Future Stock Issuances.

(a) Right of First Offer. Subject to the terms and conditions of this Section 17 and applicable securities laws, if the Company proposes to offer or sell any New Securities, the Company shall first offer such New Securities to each Major Investor. A Major Investor shall be entitled to apportion the right of first offer hereby granted to it among itself and its Affiliates in such proportions as it deems appropriate.

(i) The Company shall give notice (the “Offer Notice”) to each Major Investor, stating (A) its bona fide intention to offer such New Securities, (B) the number of such New Securities to be offered, and (C) the price and terms, if any, upon which it proposes to offer such New Securities.

(ii) By notification to the Company within 20 days after the Offer Notice is given, each Major Investor may elect to purchase or otherwise acquire, at the price and on the terms specified in the Offer Notice, up to that portion of such New Securities which equals the proportion that the Pro Rata Securities then held by such Major Investor bears to the total Pro Rata Securities then held by all Major Investors. At the expiration of such 20 day period, the Company shall promptly notify each Major Investor that elects to purchase or acquire all the New Securities available to it (each, a “Fully Exercising Investor”) of any other Major Investor’s failure to do likewise. During the 10 day period commencing after the Company has given such notice, each Fully Exercising Investor may, by giving notice to the Company, elect to purchase or acquire, in addition to the number of New Securities specified above, up to that portion of the New Securities for which Major Investors were entitled to subscribe but that were not subscribed for by the Major Investors which is equal to the proportion that the Pro Rata Securities then held by such Fully Exercising Investor bears to total Pro Rata Securities then held by all Fully Exercising Investors who wish to purchase such unsubscribed New Securities. The closing of any sale pursuant to this Section 15(a) shall occur within 60 days of the date that the Offer Notice is given.

(iii) If all New Securities referred to in the Offer Notice are not elected to be purchased or acquired as provided in Section 17(a)(ii), the Company may, during the 90 day period following the expiration of the periods provided in Section 17(a)(ii), offer and sell the remaining unsubscribed portion of such New Securities to any Person or Persons at a price not less than, and upon terms no more favorable to the offeree than, those specified in the Offer Notice. If the Company does not enter into an agreement for the sale of the New Securities within such period, or if such agreement is not consummated within 30 days of the execution thereof, the right provided hereunder shall be deemed to be revived and such New Securities shall not be offered unless first reoffered to the Major Investors in accordance with this Section 17(a).

(b) Termination. The covenants set forth in Section 17(a) shall terminate and be of no further force or effect upon the earlier to occur of (i) the consummation of the Qualified Public Offering or (ii) a Liquidation or Deemed Liquidation Event.

18. Additional Covenants.

(a) Insurance. The Company will use its best efforts to cause the following insurance policies to be maintained until such time as the Board of Directors, including a majority of the Preferred Directors (as defined in the Restated Certificate), determines that such insurance should be discontinued: (i) Directors and Officers insurance (covering the directors and their affiliates funds) in an aggregate amount of at least \$2 million, which, subject to approval by the Board of Directors, shall be increased to an aggregate amount of at least \$5 million following the IPO and (ii) term "key-person" insurance on each of the employees, directors and officers as deemed necessary by the Board of Directors, in the amount of \$1 million (or such greater amount as determined by the Board of Directors). The key-person policy shall name the Company as loss payee, and neither policy shall be cancelable by the Company without prior approval of the Board of Directors, including (until the consummation of the IPO) a majority of the Preferred Directors (as defined in the Restated Certificate).

(b) Employee Agreements. The Company will cause each existing and future officer, employee and consultant to enter into a nondisclosure and proprietary rights assignment agreement, and as applicable, a non-compete agreement in a form reasonably acceptable to the Major Investors.

(c) Employee Vesting. Unless otherwise unanimously approved by the Board of Directors, all future employees and consultants of the Company who purchase, receive options to purchase, or otherwise receive awards of shares of the Company's capital stock after the date hereof shall be required to execute restricted stock or option agreements, as applicable; providing for (i) vesting of shares over a four year period, with the first 25% of such shares vesting following 12 months of continued employment or service, and the remaining shares vesting in equal monthly installments over the following 36 months of continuous employment or service, and (ii) a lockup period in connection with the IPO through the end of the 180-day period following the effective date of the applicable registration statement (or such other period as may be requested by the Company or the underwriters to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto). The Company shall retain a "right of first refusal" on employee transfers until the IPO and shall have the right to repurchase unvested shares at cost upon termination of employment of a holder of restricted stock.

(d) Qualified Small Business Stock. The Company shall use commercially reasonable efforts to cause the shares of Preferred Stock, as well as any shares into which such shares are converted, within the meaning of section 1202(f) of the Internal Revenue Code (the "Code"), to constitute "qualified small business stock" as defined in section 1202(c) of the Code, and not to undertake any redemption or other activity which would be reasonably likely to cause the loss of such status with respect to the Series C Preferred Stock; provided, however, that such requirement shall not be applicable if the Board of Directors of the Company determines, in its good-faith business judgment, that such qualification is inconsistent with the best interests of the Company. The Company shall submit to its stockholders (including the Purchasers) and to the Internal Revenue Service any reports that may be required under section 1202(d)(1)(C) of the

Code and the regulations promulgated thereunder. In addition, within 20 business days after any Investor's written request therefor, the Company shall, at its option, either (i) deliver to such Investor a written statement indicating whether (and what portion of) such Investor's interest in the Company constitutes "qualified small business stock" as defined in section 1202(c) of the Code or (ii) deliver to such Investor such factual information in the Company's possession as is reasonably necessary to enable such Investor to determine whether (and what portion of) such Investor's interest in the Company constitutes "qualified small business stock" as defined in section 1202(c) of the Code.

(e) Board Committees. Each of International Life Sciences Fund III (LP1), L.P. and/or its affiliates (collectively, "SV Health Investors"), Alta Partners VIII, L.P. and/or its affiliates (collectively, "Alta Partners"), Lilly Ventures Fund I, LLC and/or its affiliates ("Lilly Ventures"), and Skyline Venture Partners V, L.P. and/or its affiliates (collectively, "Skyline Ventures"), shall have the right, upon request, to include its director representative as a member in each committee of the Board of Directors. The members of the Board of Directors nominated by SV Health Investors, Alta Partners, Lilly Ventures, and Skyline Ventures shall have the right to attend all meetings of the Company's scientific and other advisory boards as non-voting observers. SV Life Sciences Fund V, L.P., SV Life Sciences Fund V Strategic Partners, L.P., International Life Sciences Fund III (LP1) L.P., International Life Sciences Fund III Co-Investment, L.P., International Biotechnology Trust PLC, and International Life Sciences Fund III Strategic Partners L.P. shall be deemed to be affiliates for purposes of this Agreement.

(f) Observer Rights.

(i) As long as SV Health Investors owns shares of Preferred Stock (or Common Stock issued upon conversion thereof), the Company shall invite a representative of SV Health Investors to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets.

(ii) As long as Alta Partners owns shares of Preferred Stock (or Common Stock issued upon conversion thereof), the Company shall invite a representative of Alta Partners to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets.



(iii) As long as Skyline Ventures own shares of Preferred Stock (or Common Stock issued upon conversion thereof), the Company shall invite a representative of Skyline Partners to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets.

(iv) As long as Lilly Ventures own shares of Preferred Stock (or Common Stock issued upon conversion thereof), the Company shall invite a representative of Lilly Ventures to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets.

(g) Board Meetings. Unless otherwise determined by the vote of a majority of the directors then in office, the Board of Directors shall meet at least six times per year in accordance with an agreed-upon schedule.

(h) Business Arrangements. The Company shall not enter into any business arrangement that requires the payment to or by the Company of an amount in excess of \$500,000, unless approved by the Board of Directors.

(i) Board Expenses. The Company shall reimburse the nonemployee directors for all reasonable out-of-pocket expenses incurred in connection with attending meetings of the Board of Directors or committees thereof and other meetings or events attended on behalf of the Company.

(j) Termination of Covenants. The covenants set forth in Section 18(a) shall terminate and be of no further force or effect upon the earlier to occur of (A) the consummation of the Qualified Public Offering or (B) a Liquidation or Deemed Liquidation. The other covenants set forth in this Section 18 shall terminate and be of no further force or effect upon the earlier to occur of (A) the consummation of the Qualified Public Offering or (B) a Liquidation or Deemed Liquidation.

19. Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California. The parties hereto agree to submit to the jurisdiction of the federal and state courts of the State of California with respect to the breach or

interpretation of this Agreement or the enforcement of any and all rights, duties, liabilities, obligations, powers and other relations between the parties arising under this Agreement.

20. Entire Agreement. This Agreement constitutes the full and entire understanding among the parties regarding the subject matter herein. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto. Upon the effectiveness of this Agreement, the Prior Agreement shall be deemed amended and restated and superseded and replaced in its entirety by this Agreement, and shall be of no further force or effect separate from this Agreement.

21. Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed (a) if to a holder of Registrable Securities, to such address as such holder shall have furnished to the Company in writing, or (b) if to the Company, to its principal executive offices and addressed to the attention of the President, or to such other address as the Company shall have furnished to the holders of Registrable Securities. If notice is given to the Company, a copy shall also be sent to Fenwick & West LLP, Attention: Effie Toshav and Matthew S. Rossiter, 1191 Second Avenue, 10th Floor, Seattle, WA 98101, if notice is given to holders of Registrable Securities, a copy shall also be given to Wyrick Robbins Yates & Ponton LLP, 4101 Lake Boone Trail, Suite 300, Raleigh, NC 27607, Attn: Kenneth Eheman, and if notice is given to Celgene, a copy shall also be given to Dechert LLP, Attention: James J. Marino and David E. Schulman, 902 Carnegie Center, Suite 500, Princeton, NJ 08540.

All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified; (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient (if not sent during normal business hours, then on the next business day); (iii) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt.

22. Amendment. Any provision of this Agreement may be amended, waived or modified upon the written consent of (i) the Company, and (ii) holders of at least a majority of the then outstanding Preferred Stock (voting as a single class and on an as-converted basis). Any Holder may waive any of his or her rights or the Company's obligations hereunder without obtaining the consent of any other person. Notwithstanding any other provision of this Section 22, (x) Sections 18(f)(i), 18(e), 18(f)(ii), 18(f)(iii) and 18(f)(iv) of this Agreement shall not be amended or waived without the written consent of SV Health Investors, Alta Partners, Skyline Ventures and Lilly Ventures, respectively; and (y) any modification or waiver of this Agreement that treats any Major Investor differently from other Major Investors holding the same class and series of securities (or, in the case of a Major Investor holding Series C-2 Preferred Stock, that treats such Major Investor differently from Major Investors holding Series C Preferred Stock) shall require the prior written consent of such Major Investor. Notwithstanding the preceding, any amendment to the Company's Loan and Security Agreement with SVB or the Loan Documents referenced therein shall not be effective without the written consent of SVB.

23. Limitations on Subsequent Registration Rights.

(a) From and after the date of this Agreement, the Company shall not enter into any agreement granting any holder or prospective holder of any securities of the Company registration rights with respect to such securities without the prior written consent of at least a majority of the Registrable Securities then outstanding unless (1) such new registration rights, including standoff obligations, are on a *pari passu* basis with those rights of the Holders hereunder, are granted in accordance with the original issuance of the securities to which they relate and are granted in accordance with Section 23(b) below or (2) such new registration rights, including standoff obligations, are subordinate to the registration rights granted the Holders hereunder.

(b) Where the Company determines to grant any holder or prospective holder of any securities of the Company registration rights (in connection with the original issuance of the securities to which such rights relate) that are on a *pari passu* basis with those rights of the Holders hereunder, the grant of such rights shall be made pursuant to this Agreement and shall be evidenced by the execution of an additional signature page to this Agreement by the Company and such holder, without any requirement on the part of the Company to seek the consent or approval of the Holders.

24. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute one instrument.

25. Successors and Assigns. Except as otherwise expressly provided herein and subject to Section 15 above, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time.

26. Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

27. Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any Holder, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent or approval of any kind or character on any Holder's part of any breach, default or noncompliance under the Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to Holders, shall be cumulative and not alternative.

---

28. Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

29. Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

30. Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities or persons, or persons or entities under common management or control shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

31. Amendment of Prior Agreement. The Prior Agreement is hereby amended and superseded in its entirety and restated herein. Upon execution by the Company and the requisite parties to the Prior Agreement, all provisions of, rights granted and covenants made in the Prior Agreement are hereby superseded in their entirety and shall have no further force and effect.

*[Signature pages follow]*

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**"COMPANY"**

**SUTRO BIOPHARMA, INC.**

a Delaware corporation

By: /s/ William J. Newell

Name: William J. Newell

Title: CEO

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

SKYLINE VENTURE PARTNERS V, L.P.,  
By: Skyline Venture Management V, LLC  
Its: General Partner

By:  /s/ John G. Freund

Name:  John G. Freund

Title:  Managing Director

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

ALTA PARTNERS VIII, L.P.  
By: Alta Partners Management VIII, LLC  
Its: General Partner

By:  /s/ Dan Janney

Name:  Dan Janney

Title:  Managing Director

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**"PURCHASER"**



AMGEN VENTURES, LLC

By: /s/ David A. Piacquad

Name: David A. Piacquad

Title: SVP Business Development

[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]



---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

CELGENE CORPORATION

By: /s/ Robert Hershberg

Name: Robert Hershberg

Title: EVP, Head of Business Development & Global Alliances

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**"PURCHASER"**

LILLY VENTURES FUND I, LLC

By: /s/ S. Edward Torres

Name: S. Edward Torres

Title: Managing Director

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

MUTUAL FUND SERIES TRUST, ON BEHALF OF EVENTIDE HEALTHCARE &  
LIFE SCIENCES FUND

By:  /s/ Erik Naviloff

Name:  Erik Naviloff

Title:  Treasurer

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

NEXTHERA CAPITAL MASTER FUND LP

By: /s/ Daniel Malek

Name: Daniel Malek

Title: Managing Member of the General Partner

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

By: /s/ Denise W. Marks  
Name: Denise W. Marks  
Title: SVLSF V, LLC, Member

**"PURCHASER"**

SV LIFE SCIENCES FUND V, L.P.  
By: SV Life Sciences Fund V (GP), L.P.  
Its: Sole General Partner  
By: SVLSF V, LLC  
Its: Sole General Partner

SV LIFE SCIENCES FUND V STRATEGIC PARTNERS, L.P.  
By: SV Life Sciences Fund V (GP), L.P.  
Its: Sole General Partner  
By: SVLSF V, LLC  
Its: Sole General Partner

By: /s/ Denise W. Marks  
Name: Denise W. Marks  
Title: SVLSF V, LLC, Member

[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**"PURCHASER"**

INTERNATIONAL LIFE SCIENCES FUND III (LP1), L.P.

By: International Life Sciences Fund III (GP), L.P., its sole General Partner

By: ILSF III, LLC, its sole General Partner

By: /s/ Denise W. Marks  
Name: Denise W. Marks  
Title: ILSF III, LLC, Member

INTERNATIONAL LIFE SCIENCES FUND III CO-INVESTMENT, L.P.

By: International Life Sciences Fund III (GP), L.P., its sole General Partner

By: ILSF III, LLC, its sole General Partner

By: /s/ Denise W. Marks  
Name: Denise W. Marks  
Title: ILSF III, LLC, Member

INTERNATIONAL LIFE SCIENCES FUND III STRATEGIC PARTNERS, L.P.

By: International Life Sciences Fund III (GP), L.P., its sole General Partner

By: ILSF III, LLC, its sole General Partner

By: /s/ Denise W. Marks  
Name: Denise W. Marks  
Title: ILSF III, LLC, Member

INTERNATIONAL BIOTECHNOLOGY TRUST, PLC

By: /s/ Emma Tinsley  
Name: Emma Tinsley  
Title: Authorised Signatory

[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

**VIDA VENTURES, LLC**

By: VV manager, LLC., its Managing Member

By:  /s/ Arjun Goyal

Name: Arjun Goyal, Managing Director

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**"PURCHASER"**

**CITADEL MULTI-STRATEGY EQUITIES MASTER FUND LTD.**

By: Citadel Advisors LLC, its portfolio manager

By: /s/ Noah Goldberg

Name: Noah Goldberg

Title: Authorized Signatory

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**



---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

SAMSARA BIOCAPITAL, L.P.

By: Samsara BioCapital GP, LLC  
General Partner

By: /s/ Srinivas Akkaraju \_\_\_\_\_

Name: Srinivas Akkaraju, MD, PhD

Title: Managing Member

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**"PURCHASER"**  
**Tekla Healthcare Investors\***

By: /s/ Daniel R. Omstead

Name: Daniel R. Omstead

Title: President

\* The name Tekla Healthcare Investors is the designation of the Trustees for the time being under an Amended & Restated Declaration of Trust dated April 21, 1987, as amended, and all persons dealing with Tekla Healthcare Investors must look solely to the trust property for the enforcement of any claim against Tekla Healthcare Investors, as neither the Trustees, officers nor shareholders assume any personal liability for the obligations entered into on behalf of Tekla Healthcare Investors.

**Tekla Life Sciences Investors\***

By: /s/ Daniel R. Omstead

Name: Daniel R. Omstead

Title: President

\* The name Tekla Life Sciences Investors is the designation of the Trustees for the time being under a Declaration of Trust dated February 20, 1992, as amended, and all persons dealing with Tekla Life Sciences Investors must look solely to the trust property for the enforcement of any claim against Tekla Life Sciences Investors, as neither the Trustees, officers nor shareholders assume any personal liability for the obligations entered into on behalf of Tekla Life Sciences Investors.

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

---

IN WITNESS WHEREOF, the undersigned have executed this Third Amended and Restated Investors' Rights Agreement as of the date set forth above.

**“PURCHASER”**

Merck Sharp & Dohme Corp.

By: /s/ Benjamin Thorner

Name: Benjamin Thorner

Title: SVP & Head of BD&L

**[SIGNATURE PAGE TO THIRD AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]**

## SUTRO BIOPHARMA, INC.

## OMNIBUS AMENDMENT AGREEMENT

This Omnibus Amendment Agreement (this "Amendment") is made and entered into as of July 26, 2018 by and among Sutro Biopharma, Inc., a Delaware corporation (the "Company") and the persons and entities listed on the signature pages hereto, and amends (i) that certain Amended and Restated Voting Agreement dated as of May 24, 2018, by and among the Company and certain stockholders of the Company (the "Voting Agreement"), (ii) that certain Amended and Restated Right of First Refusal and Co-Sale Agreement, dated as of May 24, 2018, by and among the Company and certain stockholders of the Company (the "ROFR Agreement"), and (iii) that certain Amended and Restated Investors' Rights Agreement, dated as of May 24, 2018 by and among the Company and certain stockholders of the Company (the "IRA"). Reference is made to that certain Amended and Restated Series E Preferred Stock Purchase Agreement, dated July 26, 2018, by and among the Company and the Purchasers party thereto (the "Purchase Agreement").

## RECITALS

**WHEREAS**, it is a condition to the Second Tranche Closing (as defined in the Purchase Agreement) that the Company and the holders of sufficient shares of Company capital stock amend the Voting Agreement, ROFR Agreement and IRA (collectively, the "Agreements") as set forth herein.

**WHEREAS**, pursuant to Section 6.8 thereof, the Voting Agreement may be amended with the written consent of (a) the Company, (b) the Common Holders (as defined therein) holding a majority of the Shares (as defined therein) then held by all of the Common Holders then employed by or providing services to the Company, and (c) the holders of a majority of the shares of Common Stock issued or issuable upon conversion of the shares of Preferred Stock held by the Investors (as defined therein) (the holders described in clauses (b)-(c), collectively, the "Voting Majority").

**WHEREAS**, pursuant to Section 4.4 thereof, the ROFR Agreement may be amended with the written consent of (a) the Company, (b) the Key Holders (as defined therein) holding a majority of the Key Holder Shares (as defined therein) held by all of the Key Holders employed by or providing services to the Company and (c) the Investors (as defined therein) holding at least a majority of the outstanding Preferred Stock (the holders described in clauses (b)-(c), collectively, the "ROFR Majority").

**WHEREAS**, pursuant to 22 thereof, the IRA may be amended with the written consent of (a) the Company and (b) the holders of a majority of the Preferred Stock (the holders described in clause (b), the "IRA Majority"), and collectively with the Voting Majority and the ROFR Majority, the "Required Majority").

**WHEREAS**, the undersigned constitute the Required Majority.

**NOW, THEREFORE**, in consideration of the foregoing recitals and for other consideration, the adequacy and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **AMENDMENT OF VOTING AGREEMENT.** Effective as of and contingent upon the Second Tranche Closing, the Voting Agreement is hereby amended as follows:

**1.1 Amendment to Section 1.2(d).** Section 1.2(d) of the Voting Agreement is hereby amended and restated in its entirety as follows:

“(d) At each election of directors in which the holders of Series E Preferred Stock, voting separately as a class, are entitled to elect a director of the Company, one individual (the “Series E Director”) designated by Samsara Biocapital, LP and/or its Affiliates (collectively, “Samsara”), so long as Samsara holds Series E Preferred Stock, who shall initially be Michael Dybbs;”

**1.2 Amendment to Section 1.5.** Section 1.5 of the Voting Agreement is hereby amended and restated in its entirety as follows:

“1.5. Authorized Board Size. Each Stockholder agrees to vote, or cause to be voted, all Shares owned by such Stockholder, or over which such Stockholder has voting control, from time to time and at all times, in whatever manner as shall be necessary to ensure that the authorized number of members of the Board remains nine directors, and to oppose any effort by any party to change the authorized number of directors of the Company from nine directors.”

**1.3 Amendments to Section 3.3.**

**1.3.1** The phrase in clause (iv) of Section 3.3(e) and in Section 3.4 of the Voting Agreement that reads “unless the Preferred Majority elect otherwise” is hereby amended and restated in its entirety as follows:

“unless the Preferred Majority and the Requisite Series E Majority (as defined in the Company’s Certificate of Incorporation) elect otherwise”

**1.3.2** A new subsection 3.3(g) is hereby added to the end of Section 3.3 of the Voting Agreement immediately following clause 3.3(f) as follows:

“(g) no Stockholder who is not an employee or service provider of the Company shall be required to agree to any restrictive covenant in connection with the Proposed Sale (including without limitation any covenant not to solicit customers, employees or suppliers of any party to the Proposed Sale).”

---

**1.3 Amendment to Section 6.8.** Clauses (iv) and (v) of Section 6.8 of the Voting Agreement are hereby amended and restated in their entirety as follows:

“(iv) Sections 1.2(a)(i), 1.2(a)(ii), 1.2(b), 1.2(c) and 1.2(d) of this Agreement shall not be amended or waived without the written consent of Skyline Ventures, Lilly Ventures, Alta Partners, SV Health Investors and Samsara, respectively, for so long as Skyline Ventures, Lilly Ventures, Alta Partners, SV Health Investors and Samsara, respectively, hold shares of Preferred Stock;

(v) Section 1.2(d) shall not be amended or waived without the written consent of Samsara, for so long as Samsara holds shares of Series E Preferred Stock;”

**2. AMENDMENT OF IRA.** Effective as of and contingent upon the Second Tranche Closing, the IRA is hereby amended as follows:

**2.1 Amendment to Section 1.** The definition of “Major Investor” in Section 1 of the IRA is hereby amended and restated in its entirety as follows:

“Major Investor’ shall mean each Holder who holds an aggregate of at least 18,698,578 shares of Preferred Stock, as adjusted for stock splits, stock dividends or distributions, recapitalizations and similar events.”

**2.2 Amendment to Section 9.** Section 9 of the IRA is hereby amended by inserting the following at the end Section 9:

“Whenever required under this Agreement to effect a registration, qualification or compliance, the Company shall, as expeditiously as reasonably possible:

(a) cause all such Registrable Securities covered by such registration, qualification or compliance to be listed on a national securities exchange or trading system and each securities exchange and trading system (if any) on which similar securities issued by the Company are then listed;

(b) provide a transfer agent and registrar for all Registrable Securities registered pursuant to this Agreement and provide a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(c) promptly make available for inspection by the participating Holders, any managing underwriter participating in any disposition pursuant to such registration, qualification or compliance, and any attorney or accountant or other agent retained by any such underwriter or selected by the participating Holders, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company’s officers, directors, employees, and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant, or agent, in each case, as necessary or advisable to verify the accuracy of the information and to conduct appropriate due diligence in connection therewith;

(d) notify each participating Holder, promptly after the Company receives notice thereof, of the time when such registration, qualification or compliance has been declared effective or a supplement to any prospectus forming a part of such registration, qualification or compliance has been filed; and

(e) after such registration, qualification or compliance becomes effective, notify each participating Holder of any request by the U.S. Securities and Exchange Commission that the Company amend or supplement such registration, qualification or compliance.”

**2.3 Amendment to Section 11.** Section 11 of the IRA is hereby amended and restated in its entirety as follows:

“Lock-up Agreement. Each Holder hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the effective date of the registration statement relating to the IPO and ending on the date specified by the managing underwriter (such period (the “Lock-Up Period”) not to exceed one hundred eighty (180) days, or such other period as may be requested by the underwriters to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto; provided, however, that in no event will the Lock-Up Period extend beyond two hundred sixteen (216) days after the effective date of such registration statement): (a) lend; offer; pledge; sell; contract to sell; sell any option or contract to purchase; purchase any option or contract to sell; grant any option, right, or warrant to purchase; or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable (directly or indirectly) for Common Stock held immediately before the effective date of the registration statement for such offering or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such securities, whether any such transaction described in clause (a) or (b) above is to be settled by delivery of Common Stock or other securities, in cash, or otherwise. The foregoing provisions of this Section 11, (w) shall apply only to the IPO (but, for the avoidance of doubt, shall not apply to shares acquired by the Holder in the IPO; provided that upon a transfer of such shares, no public disclosure or filing under the Exchange Act by any party to the transfer shall be required, or made voluntarily, during the Lock-up Period); (x) shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement or any shares of Common Stock purchased in open market transactions after the completion of the IPO; (y) shall not apply, in the case of a Holder that is an entity, to the transfer of any shares during the Lock-Up Period to an affiliate of such Holder or any of the Holder’s stockholders, members, partners or other equity holders, provided that such affiliate, stockholder, member, partner or other equity holder agrees to be bound in writing by the restrictions set forth herein; and (z) shall only apply to the Holders if all officers and directors are subject to the same restrictions and the

Company obtains a similar agreement from all stockholders individually owning more than one percent (1%) of the Company's outstanding Common Stock (after giving effect to conversion into Common Stock of all outstanding Preferred Stock). Any discretionary waiver or termination of the restrictions of any or all of such agreements by the Company or the underwriters shall apply pro rata to all directors, officers, and Holders owning more than one percent (1%) of the Company's outstanding Common Stock (after giving effect to conversion into Common Stock of all outstanding Preferred Stock) subject to such agreements, based on the number of shares subject to such agreements, except that, notwithstanding the foregoing, the Company and the underwriters may, in their sole discretion, waive or terminate these restrictions with respect to up to one percent (1%) of the Company's then outstanding shares of the Common Stock."

**2.4 Amendment to Section 12.** A new subsection 12(e) of the IRA is hereby added to the end of Section 12 as follows:

"(e) Unless otherwise superseded by an underwriting agreement entered into in connection with the underwritten public offering, the obligations of the Company and Holders under this Section 12 shall survive the completion of any offering of Registrable Securities in a registration under this Agreement, and otherwise shall survive the termination of this Agreement."

**2.5 Amendments to Section 16.**

(a) Clauses (iv) and (v) of Section 16(d) of the IRA are hereby amended and restated in their entirety as follows:

"(iv) as may otherwise be required by law, regulation or regulatory authority, court order or stock exchange rule, provided, further, that the Major Investor promptly notifies the Company of any such required disclosure (other than with respect to routine regulatory audits or inquiries not directed at the Company) and takes reasonable steps to minimize the extent of any such required disclosure; or (v) to establish any rights or defenses, or enforce any obligations, under this Agreement; provided, however, that the Major Investors shall not disclose any financial information or pricing terms from other completed or potential transactions of the Company to any third party in connection with evaluating a potential transaction with the Company other than a transaction primarily for equity financing purposes and except to the extent necessary in connection with such Major Investor's tax filings and financial reporting obligations (including with the U.S. Securities and Exchange Commission)."

(b) A new subsection 16(e) of the IRA is hereby added to the end of Section 16 as follows:

"(e) Tekla Funds Information Rights. For so long as the Tekla Funds (defined below) continue to hold an aggregate of at least 14,958,862 shares of Preferred Stock, as adjusted for stock splits, stock dividends or distributions,



recapitalizations and similar events, the Company shall deliver to the Tekla Funds the same information the Company is required to deliver to the Major Investors pursuant to Section 16(a); provided that the Tekla Funds shall be subject to and bound by the confidentiality and non-disclosure obligations set forth in Section 16(d) to the same extent as if the Tekla Funds were a “Major Investor” hereunder. The covenants set forth in this Section 16(e) shall terminate and be of no further force or effect upon the earliest to occur of (i) the consummation of the Qualified Public Offering, as defined in the Restated Certificate, (ii) the date upon which the Company first becomes subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act, and (iii) a Liquidation or Deemed Liquidation, as such terms are defined in the Restated Certificate.”

**2.6 Amendment to Section 18(e).** Section 18(e) of the IRA is hereby amended and restated in its entirety as follows:

“(e) Board Committees. Each of International Life Sciences Fund III (LP1), L.P. and/or its affiliates (collectively, “SV Health Investors”), Alta Partners VIII, L.P. and/or its affiliates (collectively, “Alta Partners”), Lilly Ventures Fund I, LLC and/or its affiliates (“Lilly Ventures”), Samsara Biocapital, LP and/or its Affiliates (collectively, “Samsara”) and Skyline Venture Partners V, L.P. and/or its affiliates (collectively, “Skyline Ventures”), shall have the right, upon request, to include its director representative as a member in each committee of the Board of Directors. The members of the Board of Directors nominated by SV Health Investors, Alta Partners, Lilly Ventures, Samsara and Skyline Ventures shall have the right to attend all meetings of the Company’s scientific and other advisory boards as non-voting observers. SV Life Sciences Fund V, L.P., SV Life Sciences Fund V Strategic Partners, L.P., International Life Sciences Fund III (LP1) L.P., International Life Sciences Fund III Co-Investment, L.P., International Biotechnology Trust PLC, and International Life Sciences Fund III Strategic Partners L.P. shall be deemed to be affiliates for purposes of this Agreement.”

**2.7 Amendments to Section 18(f).** Section 18(f) of the IRA is hereby amended by inserting the following subparagraphs (v), (vi), (vii) and (viii):

“(v) As long as Merck Sharp & Dohme Corp. and/or its affiliates (“Merck”) own shares of Preferred Stock (or Common Stock issued upon conversion thereof), the Company shall invite a representative of Merck to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets. Notwithstanding Section 18(j)

below or anything to the contrary in this Agreement, the covenants set forth in this Section 18(f)(v) shall terminate and be of no further force or effect upon the earlier to occur of (A) the consummation of the IPO or (B) a Liquidation or Deemed Liquidation.

(vi) As long as Citadel Multi-Strategy Equities Master Fund Ltd. and/or its affiliates (collectively, "Surveyor") own shares of Preferred Stock (or Common Stock issued upon conversion thereof), the Company shall invite a representative of Surveyor to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets. Notwithstanding Section 18(j) below or anything to the contrary in this Agreement, the covenants set forth in this Section 18(f)(vi) shall terminate and be of no further force or effect upon the earlier to occur of (A) immediately prior to the consummation of the IPO or (B) a Liquidation or Deemed Liquidation.

(vii) As long as the Tekla Funds (defined below) and/or its affiliates own shares of Preferred Stock (or Common Stock issued upon conversion thereof), then from and after March 31, 2019, the Company shall invite a representative of the Tekla Funds to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets. Notwithstanding Section 18(j) below or anything to the contrary in this Agreement, the covenants set forth in this Section 18(f)(vii) shall terminate and be of no further force or effect upon the earlier to occur of (A) immediately prior to the consummation of the IPO or (B) a Liquidation or Deemed Liquidation."

(viii) As long as Vida Ventures, LLC and/or its affiliates (collectively, "Vida") own shares of Preferred Stock (or Common Stock issued upon conversion thereof), the Company shall invite a representative of Vida to attend all meetings of its Board of Directors in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner

as provided to such directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided; and provided, further, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel or result in disclosure of trade secrets. Notwithstanding Section 18(j) below or anything to the contrary in this Agreement, the covenants set forth in this Section 18(f)(viii) shall terminate and be of no further force or effect upon the earlier to occur of (A) immediately prior to the consummation of the IPO or (B) a Liquidation or Deemed Liquidation.”

**2.8 Amendment to Section 22.** The third sentence of Section 22 of the IRA is hereby amended and restated in its entirety as follows:

“Notwithstanding any other provision of this Section 22, (A) Section 16(e) shall not be amended or waived without the written consent of the Tekla Funds; (B) Sections 18(f)(i), 18(f)(ii), 18(f)(iii), 18(f)(iv), 18(f)(v), 18(f)(vi), 18(f)(vii) and 18(f)(viii) of this Agreement shall not be amended or waived without the written consent of SV Health Investors, Alta Partners, Skyline Ventures, Lilly Ventures, Merck, Surveyor, the Tekla Funds and Vida, respectively; (C) the rights of SV Health Investors, Alta Partners, Skyline Ventures and Lilly Ventures to representation on Board committees and scientific and other advisory boards pursuant to Section 18(e) shall not be amended without the written consent of SV Health Investors, Alta Partners, Skyline Ventures and Lilly Ventures, respectively; and (D) any modification or waiver of this Agreement that treats any Major Investor differently from other Major Investors holding the same class and series of securities (or, in the case of a Major Investor holding Series C-2 Preferred Stock, that treats such Major Investor differently from Major Investors holding Series C Preferred Stock) shall require the prior written consent of such Major Investor.”

**3. AMENDMENT OF ROFR AGREEMENT.** Effective as of and contingent upon the Second Tranche Closing, the ROFR Agreement is hereby amended as follows:

**3.1 Amendment to Section 1.** The reference in the first sentence of Section 1.2 of the ROFR Agreement to “15,659,255 shares of Preferred Stock” is hereby amended to read “18,698,578 shares of Preferred Stock.”

**4. GENERAL PROVISIONS.**

**4.1 References to Agreements.** All references to the Agreements in the Agreements or any of the Company Agreements (as defined in the Purchase Agreement) shall hereinafter refer to the Agreements as amended by this Amendment.

**4.2 Full Force and Effect.** Except as expressly modified by this Amendment, the terms of the Agreements shall remain in full force and effect.

---

**4.3 Counterparts; Facsimile.** This Amendment may be executed and delivered by facsimile signature and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**4.4 Effectiveness.** The provisions of this Amendment shall be effective as to all parties to the Agreements, respectively, upon the execution hereof by sufficient parties to amend the Agreements, respectively.

**4.5 Titles and Subtitles.** The titles and subtitles used in this Amendment are used for convenience only and are not to be considered in construing or interpreting this Amendment.

**4.6 Severability.** If one or more provisions of this Amendment are held to be unenforceable under applicable law, such provision shall be excluded from this Amendment, and the balance of the Amendment shall be interpreted as if such provision were so excluded, and shall be enforceable in accordance with its terms.

**4.7 Further Assurances.** The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Amendment.

**4.8 Governing Law.** This Amendment will be governed by and construed in accordance with the laws of the State of California, regardless of the laws that might otherwise govern under applicable principles of conflicts of law.

**4.9 Tekla Funds.** A copy of the Declaration of Trust, as amended and restated, for each of Tekla Healthcare Investors and Tekla Life Sciences Investors (together, the “Tekla Funds”) is on file with the Secretary of State of The Commonwealth of Massachusetts, and notice is hereby given that this Agreement is executed on behalf of the Tekla Funds by an officer or trustee of the Tekla Funds in his or her capacity as an officer or trustee of the Tekla Funds, and not individually and that the obligations of or arising out of this Agreement are not binding upon any of the trustees, officers or shareholders individually but are binding only upon the assets and property of each of the respective Tekla Funds.

[SIGNATURE PAGES FOLLOW]

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**COMPANY:**

**SUTRO BIOPHARMA, INC.**

By: /s/ William J. Newell  
William J. Newell, Chief Executive Officer

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**KEY HOLDERS/COMMON HOLDERS:**

By: /s/ William J. Newell

Name: William Newell

Date: 7/25/2018

**NEWELL FAMILY REVOCABLE TRUST DTD 08/14/2008**

By: /s/ William J. Newell

Name: William Newell

Title: Trustee

Date: 7/25/2018

**TALUSWOOD PARTNERS, L.P.**

By: /s/ William J. Newell

Name: William Newell

Title: General Partner

Date: 7/25/2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**AMGEN VENTURES, LLC**

By: /s/ Janis Naeve  
Name: Janis C. Naeve  
Title: Exec Dir Business Development  
Date: July 26, 2018



**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**CELGENE CORPORATION**

By: /s/ Robert Hershberg

Name: Robert Hershberg

Title: EVP, Head of BD & Global Alliance

Date: August 1st, 2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**



---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**VIDA VENTURES, LLC**

By: VV Manager, LLC., its Managing Member

By: /s/ Arjun Goyal

Name: Arjun Goyal, Managing Director

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**NEXTERA CAPITAL MASTER FUND LP**

By: /s/ Daniel Malek

Name: Daniel Malek

Title: Managing Member

Date: July 25, 2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**SV LIFE SCIENCES FUND V, L.P.**  
**By: SV Life Sciences Fund V (GP), L.P.**  
**Its: Sole General Partner**  
**By: SVLSF V, LLC**  
**Its: Sole General Partner**

By: /s/ Brent M. Faduski

Name: Brent M. Faduski

Title: Officer

Date: 7/25/2018

**SV LIFE SCIENCES FUND V STRATEGIC PARTNERS, L.P.**  
**By: SV Life Sciences Fund V (GP), L.P.**  
**Its: Sole General Partner**  
**By: SVLSF V, LLC**  
**Its: Sole General Partner**

By: /s/ Brent M. Faduski

Name: Brent M. Faduski

Title: Officer

Date: 7/25/2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**INTERNATIONAL LIFE SCIENCES FUND III STRATEGIC PARTNERS L.P.**

**By: International Life Sciences Fund III (GP), L.P., its sole General Partner**

**By: ILSF III, LLC, its sole General Partner**

By: /s/ Brent M. Faduski

Name: Brent M. Faduski

Title: Officer

Date: 7/25/2018

**INTERNATIONAL LIFE SCIENCES FUND III CO-INVESTMENT, L.P.**

**By: International Life Sciences Fund III (GP) L.P., its sole General Partner**

**By: ILSF III, LLC, its sole General Partner**

By: /s/ Brent M. Faduski

Name: Brent M. Faduski

Title: Officer

Date: 7/25/2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**INTERNATIONAL LIFE SCIENCES FUND III (LPI), L.P.**

**By: International Life Sciences Fund III (GP) L.P., its sole  
General Partner**

**By: ILSF III, LLC, its sole General Partner**

By: /s/ Brent M. Faduski

Name: Brent M. Faduski

Title: Officer

Date: 7/25/2018

**INTERNATIONAL BIOTECHNOLOGY TRUST, PLC**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**INTERNATIONAL BIOTECHNOLOGY TRUST, PLC**

By: /s/ James Costine

Name: James Costine

Title: Authorised Signature

Date: 26/07/2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**CITADEL MULTI-STRATEGY EQUITIES MASTER FUND LTD.**

By: Citadel Advisors LLC, its portfolio manager

By: /s/ Noah Goldberg

Name: Noah Goldberg

Title: Authorized Signatory

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**SKYLINE VENTURE PARTNERS V, L.P.**  
By: Skyline Venture Management V, LLC  
Its: General Partner

By: /s/ John Freund

Name: John Freund

Title: Managing Director

Date: 7/25/2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**



---

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**SAMSARA BIOCAPITAL, L.P.**

**By: Samsara BioCapital GP, LLC,  
General Partner**

By: /s/ Srinivas Akkaraju

Name: Srinivas Akkaraju, MD, PhD

Title: Managing Member

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**ALTA PARTNERS VIII, L.P.**

By: Alta Partners Management VIII, LLC

Its: General Partner

By: /s/ Dan Janney

Name: Dan Janney

Title: Managing Director

Date: 7/25/2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

By: /s/ Edward Albini

Name: Edward Albini

Date: 7/25/2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**Tekla Healthcare Investors\***

By: /s/ Daniel R. Omstead

Name: Daniel R. Omstead

Title: President

\* The name Tekla Healthcare Investors is the designation of the Trustees for the time being under an Amended & Restated Declaration of Trust dated April 21, 1987, as amended, and all persons dealing with Tekla Healthcare Investors must look solely to the trust property for the enforcement of any claim against Tekla Healthcare Investors, as neither the Trustees, officers nor shareholders assume any personal liability for the obligations entered into on behalf of Tekla Healthcare Investors.

**Tekla Life Sciences Investors\***

By: /s/ Daniel R. Omstead

Name: Daniel R. Omstead

Title: President

\* The name Tekla Life Sciences Investors is the designation of the Trustees for the time being under a Declaration of Trust dated February 20, 1992, as amended, and all persons dealing with Tekla Life Sciences Investors must look solely to the trust property for the enforcement of any claim against Tekla Life Sciences Investors, as neither the Trustees, officers nor shareholders assume any personal liability for the obligations entered into on behalf of Tekla Life Sciences Investors.

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**LILLY VENTURES FUND I, LLC**

By: /s/ S. Edward Torres

Name: S. Edward Torres

Title: Managing Director

Date: July 25, 2018

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

---

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

**INVESTORS:**

**MERCK SHARP & DOHME CORP.**

By: /s/ Benjamin Thorner

Name: Benjamin Thorner

Title: SVP & Head of BD&L

**SIGNATURE PAGE TO OMNIBUS AMENDMENT AGREEMENT**

THIS WARRANT AND THE UNDERLYING SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED EXCEPT AS PERMITTED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS IN ACCORDANCE WITH APPLICABLE REGISTRATION REQUIREMENTS OR AN EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT SUCH OFFER, SALE, TRANSFER, PLEDGE OR HYPOTHECATION OTHERWISE COMPLIES WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THIS WARRANT MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, TRANSFER, PLEDGE OR HYPOTHECATION OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED HEREBY.

**WARRANT TO PURCHASE SHARES OF COMMON STOCK**  
of  
**SUTRO BIOPHARMA, INC.**

Dated as of \_\_\_\_\_  
Void after the date specified in Section 8

No.

Warrant to Purchase  
\_\_\_\_\_ Shares of  
Common Stock  
(subject to adjustment)

THIS CERTIFIES THAT, for value received, \_\_\_\_\_ or his registered assigns (the "**Holder**"), is entitled, subject to the provisions and upon the terms and conditions set forth herein, to purchase from Sutro Biopharma, Inc., a Delaware corporation (the "**Company**"), shares of the Company's Common Stock, \$0.001 par value per share ("**Common Stock**"), in the amounts, at such times and at the price per share set forth in Section 1. The term "Warrant" as used herein shall include this Warrant and any warrants delivered in substitution or exchange thereof as provided herein. This Warrant is issued to the Holder in consideration for the services rendered by \_\_\_\_\_, at the request of \_\_\_\_\_ as its designee, under the letter agreement between \_\_\_\_\_ and the Company, dated \_\_\_\_\_, in accordance with the terms set forth therein, and is one of a series of warrants issued pursuant thereto (the "**Common Warrants**").

The following is a statement of the rights of the Holder and the conditions to which this Warrant is subject, and to which Holder, by acceptance of this Warrant, agrees:

**1. Number and Price of Shares; Exercise Period.**

(a) **Number of Shares.** Subject to any previous exercise of the Warrant, the Holder shall have the right to purchase up to \_\_\_\_\_ shares of Common Stock, as may be adjusted pursuant hereto (the "**Shares**"), prior to (or in connection with) the expiration of this Warrant as provided in Section 8.

(b) **Exercise Price.** The exercise price per Share shall be equal to \$\_\_\_\_\_, subject to adjustment pursuant hereto (the "**Exercise Price**").

(c) **Exercise Period.** This Warrant shall be exercisable, in whole or in part, prior to (or in connection with) the expiration of this Warrant as set forth in Section 8.

## 2. Exercise of the Warrant.

(a) **Exercise.** The purchase rights represented by this Warrant may be exercised at the election of the Holder, in whole or in part, in accordance with Section 1, by:

(i) the tender to the Company at its principal office (or such other office or agency as the Company may designate) of a notice of exercise in the form of Exhibit A (the "**Notice of Exercise**"), duly completed and executed by or on behalf of the Holder, together with the surrender of this Warrant; and

(ii) the payment to the Company of an amount equal to (x) the Exercise Price multiplied by (y) the number of Shares being purchased, by wire transfer or certified, cashier's or other check acceptable to the Company and payable to the order of the Company.

(b) **Net Issue Exercise.** In lieu of exercising this Warrant pursuant to Section 2(a)(ii), if the fair market value of one Share is greater than the Exercise Price (at the date of calculation as set forth below), the Holder may elect to receive a number of Shares equal to the value of this Warrant (or of any portion of this Warrant being canceled) by surrender of this Warrant at the principal office of the Company (or such other office or agency as the Company may designate) together with a properly completed and executed Notice of Exercise reflecting such election, in which event the Company shall issue to the Holder that number of Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where:

X = The number of Shares to be issued to the Holder

Y = The number of Shares purchasable under this Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = The fair market value of one Share (at the date of such calculation)

B = The Exercise Price (as adjusted to the date of such calculation)

For purposes of the calculation above, the fair market value of one Share shall be determined as follows:

(i) If the Company's common stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its fair market value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Board of Directors deems reliable;

(ii) If the Company's common stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its fair market value shall be the mean between the high bid and low asked prices for the Company's common stock on the day of determination;



(iii) If the Warrant is exercised in connection with the Company's initial public offering of common stock, the fair market value per Share shall be the per share offering price to the public of the Company's initial public offering; or

(iv) In the absence of an established market for the Company's common stock and if the Warrant is not exercised in connection with the Company's initial public offering of common stock, the fair market value thereof shall be determined in good faith by the Board of Directors of the Company.

(c) **Stock Certificates.** The rights under this Warrant shall be deemed to have been exercised and the Shares issuable upon such exercise shall be deemed to have been issued immediately prior to the close of business on the date this Warrant is exercised in accordance with its terms, and the person entitled to receive the Shares issuable upon such exercise shall be treated for all purposes as the holder of record of such Shares as of the close of business on such date. As promptly as reasonably practicable on or after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for that number of shares issuable upon such exercise. In the event that the rights under this Warrant are exercised in part and have not expired, the Company shall execute and deliver a new Warrant reflecting the number of Shares that remain subject to this Warrant.

(d) **No Fractional Shares or Scrip.** No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the rights under this Warrant. In lieu of such fractional share to which the Holder would otherwise be entitled, the Company shall make a cash payment equal to the Exercise Price multiplied by such fraction.

(e) **Conditional Exercise.** The Holder may exercise this Warrant conditioned upon (and effective immediately prior to) consummation of any transaction that would cause the expiration of this Warrant pursuant to Section 8 by so indicating in the notice of exercise.

(f) **Reservation of Stock.** The Company agrees during the term the rights under this Warrant are exercisable to reserve and keep available from its authorized and unissued shares of common stock for the purpose of effecting the exercise of this Warrant such number of shares as shall from time to time be sufficient to effect the exercise of the rights under this Warrant; and if at any time the number of authorized but unissued shares of common stock shall not be sufficient for purposes of the exercise of this Warrant in accordance with its terms, without limitation of such other remedies as may be available to the Holder, the Company will use its best efforts to take such corporate action as may be necessary to increase its authorized and unissued shares of its common stock to a number of shares as shall be sufficient for such purposes.

**3. Replacement of the Warrant.** Subject to the receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at the expense of the Holder shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

#### **4. Transfer of the Warrant.**

(a) **Warrant Register.** The Company shall maintain a register (the "**Warrant Register**") containing the name and address of the Holder or Holders. Until this Warrant is transferred on the Warrant Register in accordance herewith, the Company may treat the Holder as shown on the Warrant Register as the absolute owner of this Warrant for all purposes, notwithstanding any notice to the contrary. Any Holder of this Warrant (or of any portion of this Warrant) may change its address as shown on the Warrant Register by written notice to the Company requesting a change.

(b) **Warrant Agent.** The Company may appoint an agent for the purpose of maintaining the Warrant Register referred to in Section 4(a), issuing the Shares or other securities then issuable upon the exercise of the rights under this Warrant, exchanging this Warrant, replacing this Warrant or conducting related activities.

(c) **Transferability of the Warrant.** Subject to the provisions of this Warrant with respect to compliance with the Securities Act of 1933, as amended (the "**Securities Act**") and limitations on assignments and transfers, including without limitation compliance with the restrictions on transfer set forth in Section 5, title to this Warrant may be transferred by endorsement (by the transferor and the transferee executing the assignment form attached as Exhibit B (the "**Assignment Form**")) and delivery in the same manner as a negotiable instrument transferable by endorsement and delivery.

(d) **Exchange of the Warrant upon a Transfer.** On surrender of this Warrant (and a properly endorsed Assignment Form) for exchange, subject to the provisions of this Warrant with respect to compliance with the Securities Act and limitations on assignments and transfers, the Company shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of shares issuable upon exercise hereof, and the Company shall register any such transfer upon the Warrant Register. This Warrant (and the securities issuable upon exercise of the rights under this Warrant) must be surrendered to the Company or its warrant or transfer agent, as applicable, as a condition precedent to the sale, pledge, hypothecation or other transfer of any interest in any of the securities represented hereby.

(e) **Minimum Transfer.** This Warrant may not be transferred in part unless such transfer is to a transferee who, pursuant to such transfer, receives the right to purchase at least \_\_\_\_\_ (\_\_\_\_\_) Shares hereunder (as adjusted from time to time in accordance with Section 6).

(f) **Taxes.** In no event shall the Company be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of any certificate in a name other than that of the Holder, and the Company shall not be required to issue or deliver any such certificate unless and until the person or persons requesting the issue thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not payable.

**5. Restrictions on Transfer of the Warrant and Shares; Compliance with Securities Laws.** By acceptance of this Warrant, the Holder agrees to comply with the following:

(a) **Restrictions on Transfers.** This Warrant may not be transferred or assigned in whole or in part without the Company's prior written consent (which shall not be unreasonably withheld), and any attempt by Holder to transfer or assign any rights, duties or obligations that arise under this Warrant without such permission shall be void. Any transfer of this Warrant or the Shares (the "**Securities**") must be in compliance with all applicable federal and state securities laws. The Holder agrees not to make any sale, assignment, transfer, pledge or other disposition of all or any portion of the Securities, or any beneficial interest therein, unless and until the transferee thereof has agreed in writing for the benefit of the Company to take and hold such Securities subject to, and to be bound by, the terms and conditions set forth in this Warrant to the same extent as if the transferee were the original Holder hereunder, and

(i) there is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement, or

(ii) (A) such Holder shall have given prior written notice to the Company of such Holder's intention to make such disposition and shall have furnished the Company with a detailed description of the manner and circumstances of the proposed disposition, (B) the transferee shall have confirmed to the satisfaction of the Company in writing, substantially in the form of Exhibit A-1, that the Securities are being acquired (i) solely for the transferee's own account and not as a nominee for any other party, (ii) for investment and (iii) not with a view toward distribution or resale, and shall have confirmed such other matters related thereto as may be reasonably requested by the Company, and (C) such Holder shall have furnished the Company, at the Holder's expense, with (i) an opinion of counsel, reasonably satisfactory to the Company, to the effect that such disposition will not require registration of such Securities under the Securities Act or (ii) a "no action" letter from the Securities and Exchange Commission to the effect that the transfer of such Securities without registration will not result in a recommendation by the staff of the Securities and Exchange Commission that action be taken with respect thereto, whereupon such Holder shall be entitled to transfer such Securities in accordance with the terms of the notice delivered by the Holder to the Company.

(b) **Investment Representation Statement.** Unless the rights under this Warrant are exercised pursuant to an effective registration statement under the Securities Act that includes the Shares with respect to which the Warrant was exercised, it shall be a condition to any exercise of the rights under this Warrant that the Holder shall have confirmed to the satisfaction of the Company in writing, substantially in the form of Exhibit A-1, that the Shares so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment and not with a view toward distribution or resale and that the Holder shall have confirmed such other matters related thereto as may be reasonably requested by the Company.

(c) **Company's Right of First Refusal.** Notwithstanding anything to the contrary herein, before any Shares held by Holder (which, for the purposes of this Section 5(c), shall include any transferee of Shares) may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "**Right of First Refusal**").

(i) **Notice of Proposed Transfer.** The Holder of the Shares shall deliver to the Company a written notice (the "**Notice**") stating: (A) the Holder's bona fide intention to sell or otherwise transfer such Shares; (B) the name of each proposed purchaser or other transferee ("**Proposed Transferee**"); (C) the number of Shares to be transferred to each Proposed Transferee; and (D) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "**Offered Price**"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(ii) **Exercise of Right of First Refusal.** At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (iii) below.

(iii) **Purchase Price.** The purchase price ("**Purchase Price**") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(iv) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within thirty (30) days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(v) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(vi) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Holder's lifetime or on the Holder's death by will or intestacy to the Holder's immediate family or a trust for the benefit of the Holder's immediate family shall be exempt from the provisions of this Section. "**Immediate Family**" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(vii) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the expiration of this Warrant or the occurrence of any event specified in Section 8.

(d) Securities Law Legend. The Securities shall (unless otherwise permitted by the provisions of this Warrant) be stamped or imprinted with a legend substantially similar to the following (in addition to any legend required by state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED EXCEPT AS PERMITTED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS IN ACCORDANCE WITH APPLICABLE REGISTRATION REQUIREMENTS OR AN EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION OTHERWISE COMPLIES WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, TRANSFER, PLEDGE OR HYPOTHECATION OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED HEREBY.

(e) **Additional Share Legend.** The Shares issued upon exercise hereof shall also be stamped or imprinted with a legend in substantially the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND A RIGHT OF FIRST REFUSAL HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE WARRANT TO PURCHASE SHARES OF COMMON STOCK BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE, INCLUDING A LOCK-UP PERIOD IN THE EVENT OF A PUBLIC OFFERING, AS SET FORTH IN THE WARRANT PURSUANT TO WHICH THESE SHARES WERE ISSUED, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE COMPANY.

(f) **Instructions Regarding Transfer Restrictions.** The Holder consents to the Company making a notation on its records and giving instructions to any transfer agent in order to implement the restrictions on transfer established in this Section 5.

(g) **Removal of Legend.** The legend referring to federal and state securities laws identified in Section 5(d) stamped on a certificate evidencing the Shares and the stock transfer instructions and record notations with respect to such securities shall be removed and the Company shall issue a certificate without such legend to the holder of such securities if (i) such securities are registered under the Securities Act, or (ii) such holder provides the Company with an opinion of counsel reasonably acceptable to the Company to the effect that a sale or transfer of such securities may be made without registration or qualification.

**6. Adjustments.** Subject to the expiration of this Warrant pursuant to Section 8, the number and kind of shares purchasable hereunder and the Exercise Price therefor are subject to adjustment from time to time, as follows:

(a) **Merger or Reorganization.** If at any time there shall be any reorganization, recapitalization, merger or consolidation (a "**Reorganization**") involving the Company (other than as otherwise provided for herein or as would cause the expiration of this Warrant under Section 8) in which shares of the Company's stock are converted into or exchanged for securities, cash or other property, then, as a part of such Reorganization, lawful provision shall be made so that the Holder shall thereafter be entitled to receive upon exercise of this Warrant, the kind and amount of securities, cash or other property of the successor corporation resulting from such Reorganization, equivalent in value to that which a holder of the Shares deliverable upon exercise of this Warrant would have been entitled in such Reorganization if the right to purchase the Shares hereunder had been exercised immediately prior to such Reorganization. In any such case, appropriate adjustment (as determined in good faith by the Board of Directors of the successor corporation) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after such Reorganization to the end that the provisions of this Warrant shall be applicable after the event, as near as reasonably may be, in relation to any shares or other securities deliverable after that event upon the exercise of this Warrant.

(b) **Reclassification of Shares.** If the securities issuable upon exercise of this Warrant are changed into the same or a different number of securities of any other class or classes by reclassification, capital reorganization or otherwise (other than as otherwise provided for herein) (a "**Reclassification**"),

then, in any such event, in lieu of the number of Shares which the Holder would otherwise have been entitled to receive, the Holder shall have the right thereafter to exercise this Warrant for a number of shares of such other class or classes of stock that a holder of the number of securities deliverable upon exercise of this Warrant immediately before that change would have been entitled to receive in such Reclassification, all subject to further adjustment as provided herein with respect to such other shares.

(c) **Subdivisions and Combinations.** In the event that the outstanding shares of common stock are subdivided (by stock split, by payment of a stock dividend or otherwise) into a greater number of shares of such securities, the number of Shares issuable upon exercise of the rights under this Warrant immediately prior to such subdivision shall, concurrently with the effectiveness of such subdivision, be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the outstanding shares of common stock are combined (by reclassification or otherwise) into a lesser number of shares of such securities, the number of Shares issuable upon exercise of the rights under this Warrant immediately prior to such combination shall, concurrently with the effectiveness of such combination, be proportionately decreased, and the Exercise Price shall be proportionately increased.

(d) **Notice of Adjustments.** Upon any adjustment in accordance with this Section 6, the Company shall give notice thereof to the Holder, which notice shall state the event giving rise to the adjustment, the Exercise Price as adjusted and the number of securities or other property purchasable upon the exercise of the rights under this Warrant, setting forth in reasonable detail the method of calculation of each. The Company shall, upon the written request of any Holder, furnish or cause to be furnished to such Holder a certificate setting forth (i) such adjustments, (ii) the Exercise Price at the time in effect and (iii) the number of securities and the amount, if any, of other property that at the time would be received upon exercise of this Warrant.

**7. Notification of Certain Events.** Prior to the expiration of this Warrant pursuant to Section 8, in the event that the Company shall authorize:

(a) the issuance of any dividend or other distribution on the capital stock of the Company (other than (i) dividends or distributions otherwise provided for in Section 6, (ii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries upon termination of their employment or services pursuant to agreements providing for the right of said repurchase; (iii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries pursuant to rights of first refusal or first offer contained in agreements providing for such rights; or (iv) repurchases of capital stock of the Company in connection with the settlement of disputes with any stockholder), whether in cash, property, stock or other securities;

(b) the voluntary liquidation, dissolution or winding up of the Company; or

(c) any transaction resulting in the expiration of this Warrant pursuant to Section 8(b) or 8(c);

the Company shall send to the Holder of this Warrant at least ten (10) days prior written notice of the date on which a record shall be taken for any such dividend or distribution specified in clause (a) or the expected effective date of any such other event specified in clause (b) or (c), as applicable. The notice provisions set forth in this section may be shortened or waived prospectively or retrospectively by the consent of the holders of a majority of the Shares issuable upon exercise of the rights under the Common Warrants.

**8. Expiration of the Warrant.** This Warrant shall expire and shall no longer be exercisable as of the earlier of:

(a) \_\_\_\_\_, Pacific time, on \_\_\_\_\_;

(b) (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions to which the Company is a party (including, without limitation, any stock acquisition, reorganization, merger or consolidation, but excluding any sale of stock for capital raising purposes and any transaction effected primarily for purposes of changing the Company's jurisdiction of incorporation) other than a transaction or series of related transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction or series of related transactions retain, immediately after such transaction or series of transactions, as a result of shares in the Company held by such holders prior to such transaction or series of transactions, at least a majority of the total voting power represented by the outstanding voting securities of the Company or such other surviving or resulting entity (or if the Company or such other surviving or resulting entity is a wholly-owned subsidiary immediately following such acquisition, its parent), or (ii) a sale, lease or other disposition of all or substantially all of the assets of the Company and its subsidiaries taken as a whole by means of any transaction or series of related transactions, except where such sale, lease or other disposition is to a wholly-owned subsidiary of the Company; or

(c) Immediately prior to the closing of a firm commitment underwritten public offering pursuant to an effective registration statement filed under the Securities Act covering the offering and sale of the Company's common stock.

**9. No Rights as a Stockholder.** Nothing contained herein shall entitle the Holder to any rights as a stockholder of the Company or to be deemed the holder of any securities that may at any time be issuable on the exercise of the rights hereunder for any purpose nor shall anything contained herein be construed to confer upon the Holder, as such, any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, merger, conveyance or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or any other rights of a stockholder of the Company until the rights under the Warrant shall have been exercised and the Shares purchasable upon exercise of the rights hereunder shall have become deliverable as provided herein.

**10. Market Stand-off.** The Holder of this Warrant hereby agrees that such Holder shall not sell or otherwise transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, of any common stock (or other securities) of the Company held by the Holder (other than those included in the registration) during the one hundred eighty (180) day period following the effective date of the registration statement for the Company's initial public offering filed under the Securities Act (or such other period as may be requested by the Company or an underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in NASD Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto). The obligations described in this section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions and may stamp each certificate with a legend as substantially set forth in Section 5(e) with respect to the shares of common stock (or other securities) subject to the foregoing restriction until the end of such one hundred eighty (180) day (or other) period. The Holder agrees to execute a market stand-off agreement with the underwriters in the offering in customary form consistent with the provisions of this section.

---

**11. Representations and Warranties of the Holder.** By acceptance of this Warrant, the Holder represents and warrants to the Company as follows:

(a) **No Registration.** The Holder understands that the Securities have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Holder's representations as expressed herein or otherwise made pursuant hereto.

(b) **Investment Intent.** The Holder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof. The Holder has no present intention of selling, granting any participation in, or otherwise distributing the Securities, nor does it have any contract, undertaking, agreement or arrangement for the same.

(c) **Investment Experience.** The Holder has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company, and has such knowledge and experience in financial or business matters so that it is capable of evaluating the merits and risks of its investment in the Company and protecting its own interests.

(d) **Speculative Nature of Investment.** The Holder understands and acknowledges that the Company has a limited financial and operating history and that its investment in the Company is highly speculative and involves substantial risks. The Holder can bear the economic risk of its investment and is able, without impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

(e) **Access to Data.** The Holder has had an opportunity to ask questions of officers of the Company, which questions were answered to its satisfaction. The Holder believes that it has received all the information that it considers necessary or appropriate for deciding whether to acquire the Securities. The Holder understands that any such discussions, as well as any information issued by the Company, were intended to describe certain aspects of the Company's business and prospects, but were not necessarily a thorough or exhaustive description. The Holder acknowledges that any business plans prepared by the Company have been, and continue to be, subject to change and that any projections included in such business plans or otherwise are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results.

(f) **Accredited Investor.** The Holder is an "accredited investor" within the meaning of Regulation D, Rule 501(a), promulgated by the Securities and Exchange Commission and agrees to submit to the Company such further assurances of such status as may be reasonably requested by the Company.

(g) **Residency.** The residency of the Holder (or, in the case of a partnership, corporation or other business entity, such entity's principal place of business) is correctly set forth on the signature page hereto.

(h) **Restrictions on Resales.** The Holder acknowledges that the Securities must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available. The Holder is aware of the provisions of Rule 144 promulgated under the Securities Act, which permit resale of shares purchased in a private placement subject to the satisfaction of certain conditions, which may include, among other things, the availability of certain current public information about the Company; the resale occurring not less than a specified period after a party has



purchased and paid for the security to be sold; the number of shares being sold during any three-month period not exceeding specified limitations; the sale being effected through a “broker’s transaction,” a transaction directly with a “market maker” or a “riskless principal transaction” (as those terms are defined in the Securities Act or the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder); and the filing of a Form 144 notice, if applicable. The Holder acknowledges and understands that the Company may not be satisfying the current public information requirement of Rule 144 at the time the Holder wishes to sell the Securities and that, in such event, the Holder may be precluded from selling the Securities under Rule 144 even if the other applicable requirements of Rule 144 have been satisfied. The Holder acknowledges that, in the event the applicable requirements of Rule 144 are not met, registration under the Securities Act or an exemption from registration will be required for any disposition of the Securities. The Holder understands that, although Rule 144 is not exclusive, the Securities and Exchange Commission has expressed its opinion that persons proposing to sell restricted securities received in a private offering other than in a registered offering or pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales and that such persons and the brokers who participate in the transactions do so at their own risk.

(i) **No Public Market.** The Holder understands and acknowledges that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Company’s securities.

(j) **Brokers and Finders.** The Holder has not engaged any brokers, finders or agents in connection with the Securities, and the Company has not incurred nor will incur, directly or indirectly, as a result of any action taken by the Holder, any liability for brokerage or finders’ fees or agents’ commissions or any similar charges in connection with the Securities.

(k) **Legal Counsel.** The Holder has had the opportunity to review this Warrant, the exhibits and schedules attached hereto and the transactions contemplated by this Warrant with its own legal counsel. The Holder is not relying on any statements or representations of the Company or its agents for legal advice with respect to this investment or the transactions contemplated by this Warrant.

(l) **Tax Advisors.** The Holder has reviewed with its own tax advisors the U.S. federal, state and local and non-U.S. tax consequences of this investment and the transactions contemplated by this Warrant. With respect to such matters, the Holder relies solely on any such advisors and not on any statements or representations of the Company or any of its agents, written or oral. The Holder understands that it (and not the Company) shall be responsible for its own tax liability that may arise as a result of this investment and the transactions contemplated by this Warrant.

**12. Code Section 409A.** Under Code Section 409A, a warrant that vests after \_\_\_\_\_ (or that vested on or prior to such date but which was materially modified after \_\_\_\_\_) that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the “**IRS**”) to be less than the fair market value of a Share on the date of grant (a “**discount warrant**”) may be considered “deferred compensation.” A warrant that is a “discount warrant” may result in (i) income recognition by the holder of the warrant prior to the exercise of the warrant, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The “discount warrant” may also result in additional state income, penalty and interest tax to the holder of the warrant. Holder acknowledges that the Company cannot guarantee and has not guaranteed that the IRS will agree that the per Share exercise price of this Warrant equals or exceeds the fair market value of a Share on the date of grant in a later examination. Holder agrees that if the IRS determines that the Warrant was granted with a per Share exercise price that was less than the fair market value of a Share on the date of grant, Holder will be solely responsible for Holder’s costs related to such a determination.

**13. Miscellaneous.**

(a) **Amendments.** Except as expressly provided herein, neither this Warrant nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument referencing this Warrant and signed by the Company and the holders of warrants representing not less than a majority of the Shares issuable upon exercise of any and all outstanding Common Warrants, which majority does not need to include the consent of the Holder. Any amendment, waiver, discharge or termination effected in accordance with this Section 13(a) shall be binding upon each holder of the Common Warrants, each future holder of such Common Warrants and the Company; *provided, however,* that no special consideration or inducement may be given to any such holder in connection with such consent that is not given ratably to all such holders, and that such amendment must apply to all such holders equally and ratably in accordance with the number of shares of Common Stock issuable upon exercise of the Common Warrants. The Company shall promptly give notice to all holders of Common Warrants of any amendment effected in accordance with this Section 13(a).

(b) **Waivers.** No waiver of any single breach or default shall be deemed a waiver of any other breach or default theretofore or thereafter occurring.

(c) **Notices.** All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by facsimile or electronic mail (if to the Holder) or otherwise delivered by hand, messenger or courier service addressed:

(i) if to the Holder, to the Holder at the Holder's address, facsimile number or electronic mail address as shown in the Company's records, as may be updated in accordance with the provisions hereof, or until any such Holder so furnishes an address, facsimile number or electronic mail address to the Company, then to and at the address, facsimile number or electronic mail address of the last holder of this Warrant for which the Company has contact information in its records; or

(ii) if to the Company, to the attention of the President or Chief Financial Officer of the Company at the Company's address as shown on the signature page hereto, or at such other current address as the Company shall have furnished to the Holder, with a copy (which shall not constitute notice) to \_\_\_\_\_,

Each such notice or other communication shall for all purposes of this Warrant be treated as effective or having been given (i) if delivered by hand, messenger or courier service, when delivered, or (ii) if sent by mail, at the earlier of its receipt or 72 hours after the same has been deposited in a regularly-maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid, or (iii) if sent by facsimile, upon confirmation of facsimile transfer or, if sent by electronic mail, upon confirmation of delivery when directed to the relevant electronic mail address. In the event of any conflict between the Company's books and records and this Warrant or any notice delivered hereunder, the Company's books and records will control absent fraud or error.

(d) **Governing Law.** This Warrant and all actions arising out of or in connection with this Warrant shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

(e) **Jurisdiction and Venue.** Each of the Holder and the Company irrevocably consents to the exclusive jurisdiction and venue of any court within San Mateo County, State of California, in connection with any matter based upon or arising out of this Warrant or the matters contemplated herein, and agrees that process may be served upon them in any manner authorized by the laws of the State of California for such persons.

(f) **Titles and Subtitles.** The titles and subtitles used in this Warrant are used for convenience only and are not to be considered in construing or interpreting this Warrant. All references in this Warrant to sections, paragraphs and exhibits shall, unless otherwise provided, refer to sections and paragraphs hereof and exhibits attached hereto.

(g) **Severability.** If any provision of this Warrant becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, portions of such provision, or such provision in its entirety, to the extent necessary, shall be severed from this Warrant, and such illegal, unenforceable or void provision shall be replaced with a valid and enforceable provision that will achieve, to the extent possible, the same economic, business and other purposes of the illegal, unenforceable or void provision. The balance of this Warrant shall be enforceable in accordance with its terms.

(h) **Waiver of Jury Trial. EACH OF THE HOLDER AND THE COMPANY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATED TO THIS WARRANT.** If the waiver of jury trial set forth in this paragraph is not enforceable, then any claim or cause of action arising out of or relating to this Warrant shall be settled by judicial reference pursuant to California Code of Civil Procedure Section 638 *et seq.* before a referee sitting without a jury, such referee to be mutually acceptable to the parties or, if no agreement is reached, by a referee appointed by the Presiding Judge of the California Superior Court for San Mateo County. This paragraph shall not restrict the Holder or the Company from exercising remedies under the Uniform Commercial Code or from exercising pre-judgment remedies under applicable law.

(i) **California Corporate Securities Law.** THE SALE OF THE SECURITIES THAT ARE THE SUBJECT OF THIS WARRANT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATION BY SECTION 25100, 25102, OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS WARRANT ARE EXPRESSLY CONDITIONED UPON THE QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

(j) **Rights and Obligations Survive Exercise of the Warrant.** Except as otherwise provided herein, the rights and obligations of the Company and the Holder under this Warrant shall survive exercise of this Warrant.

(k) **Entire Agreement.** Except as expressly set forth herein, this Warrant (including the exhibits attached hereto) constitutes the entire agreement and understanding of the Company and the Holder with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to the subject matter hereof.

(signature page follows)

The Company and the Holder sign this Warrant as of the date stated on the first page.

**SUTRO BIOPHARMA, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

**AGREED AND ACKNOWLEDGED,**

\_\_\_\_\_

\_\_\_\_\_  
Address:

\_\_\_\_\_

Fax number:

Email address: \_\_\_\_\_

*(Signature Page to Warrant to Purchase Shares Common Stock of Sutro Biopharma, Inc.)*

**EXHIBIT A**  
**NOTICE OF EXERCISE**

**TO: SUTRO BIOPHARMA, INC. (the "Company")**

**Attention: President**

(1) **Exercise.** The undersigned elects to purchase the following pursuant to the terms of the attached warrant:

Number of shares: \_\_\_\_\_

Type of security: \_\_\_\_\_

(2) **Method of Exercise.** The undersigned elects to exercise the attached warrant pursuant to:

A cash payment, and tenders herewith payment of the purchase price for such shares in full, together with all applicable transfer taxes, if any.

The net issue exercise provisions of Section 2(b) of the attached warrant.

(3) **Conditional Exercise.** Is this a conditional exercise pursuant to Section 2(e):

Yes  No

If "Yes," indicate the applicable condition:

\_\_\_\_\_

(4) **Stock Certificate.** Please issue a certificate or certificates representing the shares in the name of:

The undersigned

Other—Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

(5) **Unexercised Portion of the Warrant.** Please issue a new warrant for the unexercised portion of the attached warrant in the name of:

The undersigned

Other—Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Not applicable

- (6) **Investment Intent.** The undersigned represents and warrants that the aforesaid shares are being acquired for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of selling, granting any participation in, or otherwise distributing the shares, nor does it have any contract, undertaking, agreement or arrangement for the same, and all representations and warranties of the undersigned set forth in Section 11 of the attached warrant are true and correct as of the date hereof.
- (7) **Investment Representation Statement and Market Stand-Off Agreement.** The undersigned has executed, and delivers herewith, an Investment Representation Statement and Market Stand-Off Agreement in a form substantially similar to the form attached to the warrant as Exhibit A-1.
- (8) **Consent to Receipt of Electronic Notice.** Subject to the limitations set forth in Delaware General Corporation Law §232(c), the undersigned consents to the delivery of any notice to stockholders given by the Company under the Delaware General Corporation Law or the Company's certificate of incorporation or bylaws by (i) facsimile telecommunication to the facsimile number provided below (or to any other facsimile number for the undersigned in the Company's records), (ii) electronic mail to the electronic mail address provided below (or to any other electronic mail address for the undersigned in the Company's records), (iii) posting on an electronic network together with separate notice to the undersigned of such specific posting or (iv) any other form of electronic transmission (as defined in the Delaware General Corporation Law) directed to the undersigned. This consent may be revoked by the undersigned by written notice to the Company and may be deemed revoked in the circumstances specified in Delaware General Corporation Law §232.

\_\_\_\_\_  
*(Print name of the warrant holder)*

\_\_\_\_\_  
*(Signature)*

\_\_\_\_\_  
*(Name and title of signatory, if applicable)*

\_\_\_\_\_  
*(Date)*

\_\_\_\_\_  
*(Fax number)*

\_\_\_\_\_  
*(Email address)*

*(Signature page to the Notice of Exercise)*

EXHIBIT A-1

INVESTMENT REPRESENTATION STATEMENT  
AND  
MARKET STAND-OFF AGREEMENT

INVESTOR: \_\_\_\_\_  
COMPANY: SUTRO BIOPHARMA, INC.  
SECURITIES: THE WARRANT ISSUED ON \_\_\_\_\_ (THE “WARRANT”) AND THE SECURITIES ISSUED OR ISSUABLE UPON EXERCISE THEREOF  
DATE: \_\_\_\_\_

In connection with the purchase or acquisition of the above-listed Securities, the undersigned Investor represents and warrants to, and agrees with, the Company as follows:

1. **No Registration.** The Investor understands that the Securities have not been, and will not be, registered under the Securities Act of 1933, as amended (the “*Securities Act*”), by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the *bona fide* nature of the investment intent and the accuracy of the Investor’s representations as expressed herein or otherwise made pursuant hereto.

2. **Investment Intent.** The Investor is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof. The Investor has no present intention of selling, granting any participation in, or otherwise distributing the Securities, nor does it have any contract, undertaking, agreement or arrangement for the same.

3. **Investment Experience.** The Investor has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company, and has such knowledge and experience in financial or business matters so that it is capable of evaluating the merits and risks of its investment in the Company and protecting its own interests.

4. **Speculative Nature of Investment.** The Investor understands and acknowledges that the Company has a limited financial and operating history and that its investment in the Company is highly speculative and involves substantial risks. The Investor can bear the economic risk of its investment and is able, without impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

5. **Access to Data.** The Investor has had an opportunity to ask questions of officers of the Company, which questions were answered to its satisfaction. The Investor believes that it has received all the information that it considers necessary or appropriate for deciding whether to acquire the Securities. The Investor understands that any such discussions, as well as any information issued by the Company, were intended to describe certain aspects of the Company’s business and prospects, but were not necessarily a thorough or exhaustive description. The Investor acknowledges that any business plans prepared by the Company have been, and continue to be, subject to change and that any projections included in such business plans or otherwise are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results.

---

6. **Accredited Investor.** The Investor is an “accredited investor” within the meaning of Regulation D, Rule 501(a), promulgated by the Securities and Exchange Commission and agrees to submit to the Company such further assurances of such status as may be reasonably requested by the Company.

7. **Residency.** The residency of the Investor (or, in the case of a partnership, corporation or other business entity, such entity’s principal place of business) is correctly set forth on the signature page hereto.

8. **Restrictions on Resales.** The Investor acknowledges that the Securities must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available. The Investor is aware of the provisions of Rule 144 promulgated under the Securities Act, which permit resale of shares purchased in a private placement subject to the satisfaction of certain conditions, which may include, among other things, the availability of certain current public information about the Company; the resale occurring not less than a specified period after a party has purchased and paid for the security to be sold; the number of shares being sold during any three-month period not exceeding specified limitations; the sale being effected through a “broker’s transaction,” a transaction directly with a “market maker” or a “riskless principal transaction” (as those terms are defined in the Securities Act or the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder); and the filing of a Form 144 notice, if applicable. The Investor acknowledges and understands that the Company may not be satisfying the current public information requirement of Rule 144 at the time the Investor wishes to sell the Securities and that, in such event, the Investor may be precluded from selling the Securities under Rule 144 even if the other applicable requirements of Rule 144 have been satisfied. The Investor understands and acknowledges that, in the event the applicable requirements of Rule 144 are not met, registration under the Securities Act or an exemption from registration will be required for any disposition of the Securities. The Investor understands that, although Rule 144 is not exclusive, the Securities and Exchange Commission has expressed its opinion that persons proposing to sell restricted securities received in a private offering other than in a registered offering or pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for those offers or sales and that those persons and the brokers who participate in the transactions do so at their own risk.

9. **No Public Market.** The Holder understands and acknowledges that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Company’s securities.

10. **Brokers and Finders.** The Investor has not engaged any brokers, finders or agents in connection with the Securities, and the Company has not incurred nor will incur, directly or indirectly, as a result of any action taken by the Investor, any liability for brokerage or finders’ fees or agents’ commissions or any similar charges in connection with the Securities.

11. **Legal Counsel.** The Investor has had the opportunity to review the Warrant, the exhibits and schedules attached thereto and the transactions contemplated by the Warrant with its own legal counsel. The Investor is not relying on any statements or representations of the Company or its agents for legal advice with respect to this investment or the transactions contemplated by the Warrant.

12. **Tax Advisors.** The Investor has reviewed with its own tax advisors the U.S. federal, state and local and non-U.S. tax consequences of this investment and the transactions contemplated by the Warrant. With respect to such matters, the Investor relies solely on such advisors and not on any statements or representations of the Company or any of its agents, written or oral. The Investor understands that it (and not the Company) shall be responsible for its own tax liability that may arise as a result of this investment or the transactions contemplated by the Warrant.



---

13. **Market Stand-off.** The Investor agrees that the Investor shall not sell or otherwise transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, of any common stock (or other securities) of the Company held by the Investor (other than those included in the registration) during the one hundred eighty (180) day period following the effective date of the registration statement for the Company's initial public offering filed under the Securities Act (or such other period as may be requested by the Company or an underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in NASD Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto. The obligations described in this section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions and may stamp each certificate with a legend with respect to the shares of common stock (or other securities) subject to the foregoing restriction until the end of such one hundred eighty (180) day (or other) period. The Investor agrees to execute a market stand-off agreement with the relevant underwriters in customary form consistent with the provisions of this section.

14. **Company's Right of First Refusal.** The undersigned acknowledges and agrees to be bound, or to continue to be bound, by the Company's right of first refusal over the securities issued or issuable upon the exercise of the Warrant, as provided for in Section 5(c) of the Warrant.

*(signature page follows)*

---

The Investor is signing this Investment Representation Statement and Market Stand-Off Agreement on the date first written above.

**INVESTOR**

---

*(Print name of the investor)*

---

*(Signature)*

---

*(Name and title of signatory, if applicable)*

---

*(Street address)*

---

*(City, state and ZIP)*

**EXHIBIT B**  
**ASSIGNMENT FORM**

ASSIGNOR: \_\_\_\_\_  
COMPANY: SUTRO BIOPHARMA, INC.  
WARRANT: THE WARRANT TO PURCHASE SHARES OF COMMON STOCK ISSUED ON \_\_\_\_\_ (THE "*WARRANT*")  
DATE: \_\_\_\_\_

- (1) **Assignment.** The undersigned registered holder of the Warrant ("*Assignor*") assigns and transfers to the assignee named below ("*Assignee*") all of the rights of Assignor under the Warrant, with respect to the number of shares set forth below:

Name of Assignee: \_\_\_\_\_

Address of Assignee: \_\_\_\_\_  
\_\_\_\_\_

Number of Shares Assigned: \_\_\_\_\_

and does irrevocably constitute and appoint \_\_\_\_\_ as attorney to make such transfer on the books of Sutro Biopharma, Inc. (the "*Company*"), maintained for the purpose, with full power of substitution in the premises.

- (2) **Obligations of Assignee.** Assignee agrees to take and hold the Warrant and any shares of stock to be issued upon exercise of the rights thereunder (the "*Securities*") subject to, and to be bound by, the terms and conditions set forth in the Warrant to the same extent as if Assignee were the original holder thereof.
- (3) **Investment Intent.** Assignee represents and warrants that the Securities are being acquired for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, the distribution thereof, and that Assignee has no present intention of selling, granting any participation in, or otherwise distributing the shares, nor does it have any contract, undertaking, agreement or arrangement for the same, and all representations and warranties set forth in Section 11 of the Warrant are true and correct as to Assignee as of the date hereof.
- (4) **Investment Representation Statement and Market Stand-Off Agreement.** Assignee has executed, and delivers herewith, an Investment Representation Statement and Market Stand-Off Agreement in a form substantially similar to the form attached to the Warrant as Exhibit A-1.

Assignor and Assignee are signing this Assignment Form on the date first set forth above.

**ASSIGNOR**

**ASSIGNEE**

\_\_\_\_\_  
*(Print name of Assignor)*

\_\_\_\_\_  
*(Print name of Assignee)*

\_\_\_\_\_  
*(Signature of Assignor)*

\_\_\_\_\_  
*(Signature of Assignee)*

\_\_\_\_\_  
*(Print name of signatory, if applicable)*

\_\_\_\_\_  
*(Print name of signatory, if applicable)*

\_\_\_\_\_  
*(Print title of signatory, if applicable)*

\_\_\_\_\_  
*(Print title of signatory, if applicable)*

Address:

Address:

THIS WARRANT AND THE UNDERLYING SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED EXCEPT AS PERMITTED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS IN ACCORDANCE WITH APPLICABLE REGISTRATION REQUIREMENTS OR AN EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT SUCH OFFER, SALE, TRANSFER, PLEDGE OR HYPOTHECATION OTHERWISE COMPLIES WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THIS WARRANT MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, TRANSFER, PLEDGE OR HYPOTHECATION OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED HEREBY.

**WARRANT TO PURCHASE SHARES OF PREFERRED STOCK**  
of  
**SUTRO BIOPHARMA, INC.**

Dated as of \_\_\_\_\_  
Void after the date specified in Section 8

No.

**Warrant to Purchase  
Shares of  
Preferred Stock  
(subject to adjustment)**

THIS CERTIFIES THAT, in consideration of the sum of \_\_\_\_\_ (\$ \_\_\_\_\_) and for other value received, \_\_\_\_\_, or its registered assigns (the “Holder”), is entitled, subject to the provisions and upon the terms and conditions set forth herein, to purchase from Sutro Biopharma, Inc., a Delaware corporation (the “Company”), Shares (as defined below), in the amounts, at such times and at the price per share set forth in Section 1. The term “Warrant” as used herein shall include this Warrant and any warrants delivered in substitution or exchange thereof as provided herein. This Warrant is issued in connection with the transactions described in the Note and Warrant Purchase Agreement, dated as of \_\_\_\_\_, by and among the Company and the purchasers described therein (the “Purchase Agreement”).

The following is a statement of the rights of the Holder and the conditions to which this Warrant is subject, and to which Holder, by acceptance of this Warrant, agrees:

**1. Number and Price of Shares; Exercise Period.**

(a) **Definition of Shares.** “Shares” shall mean the class and series of preferred stock issued by the Company to investors in a Qualified Financing (as defined below) that occurs prior to the earlier of (i) \_\_\_\_\_ or (ii) the expiration of this Warrant. If no Qualified Financing occurs prior to the earlier of (i) \_\_\_\_\_ or (ii) the expiration of this Warrant, “Shares” shall mean Series B Preferred Stock of the Company. A “Qualified Financing” is a transaction or series of transactions pursuant to which the Company issues and sells shares of its preferred stock, with the principal purpose of raising capital, for aggregate gross proceeds of at least \$ \_\_\_\_\_ (including any and all amounts received upon the conversion or cancellation of indebtedness).

(b) **Number of Shares.** Subject to any previous exercise of the Warrant, the Holder shall have the right to purchase up to the number of Shares that equals the quotient obtained by dividing (x) \$ \_\_\_\_\_ by (y) the Exercise Price (as defined below), prior to (or in connection with) the expiration of this Warrant as provided in Section 8.

(c) **Exercise Price.** The exercise price per Share shall be equal to the lowest price per share of the Shares issued in a Qualified Financing *provided, however*, that if no Qualified Financing has occurred on or prior to the earlier of (i) September 20, 2011 or (ii) the expiration of this Warrant, and if the Shares subject to this Warrant are deemed to be Series B Preferred Stock of the Company in accordance with Section 1(a), the exercise price for the Shares subject to this Warrant shall be \_\_\_\_\_ per Share, subject to adjustment pursuant hereto (the "**Exercise Price**").

(d) **Exercise Period.** This Warrant shall be exercisable, in whole or in part, after the earlier of (i) the closing date of a Qualified Financing or (ii) \_\_\_\_\_ and prior to (or in connection with) the expiration of this Warrant as set forth in Section 8.

## 2. Exercise of the Warrant.

(a) **Exercise.** The purchase rights represented by this Warrant may be exercised at the election of the Holder, in whole or in part, in accordance with Section 1, by:

(i) the tender to the Company at its principal office (or such other office or agency as the Company may designate) of a notice of exercise in the form of Exhibit A (the "**Notice of Exercise**"), duly completed and executed by or on behalf of the Holder, together with the surrender of this Warrant; and

(ii) the payment to the Company of an amount equal to (x) the Exercise Price multiplied by (y) the number of Shares being purchased, by wire transfer or certified, cashier's or other check acceptable to the Company and payable to the order of the Company.

(b) **Net Issue Exercise.** In lieu of exercising this Warrant pursuant to Section 2(a)(ii), if the fair market value of one Share is greater than the Exercise Price (at the date of calculation as set forth below), the Holder may elect to receive a number of Shares equal to the value of this Warrant (or of any portion of this Warrant being canceled) by surrender of this Warrant at the principal office of the Company (or such other office or agency as the Company may designate) together with a properly completed and executed Notice of Exercise reflecting such election, in which event the Company shall issue to the Holder that number of Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where:

X = The number of Shares to be issued to the Holder

Y = The number of Shares purchasable under this Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = The fair market value of one Share (at the date of such calculation)

B = The Exercise Price (as adjusted to the date of such calculation)

For purposes of the calculation above, the fair market value of one Share shall be determined by the Board of Directors of the Company, acting in good faith *provided, however*, that:

(i) where a public market exists for the Company's common stock at the time of such exercise, the fair market value per Share shall be the product of (x) the average of the closing bid and asked prices of the common stock or the closing price quoted on the national securities exchange on which the common stock is listed as published in the *Wall Street Journal*, as applicable, for the ten (10) trading day period ending five (5) trading days prior to the date of determination of fair market value and (y) the number of shares of common stock into which each Share is convertible at the time of such exercise, as applicable; and

(ii) if the Warrant is exercised in connection with the Company's initial public offering of common stock, the fair market value per Share shall be the product of (x) the per share offering price to the public of the Company's initial public offering and (y) the number of shares of common stock into which each Share is convertible at the time of such exercise, as applicable.

(c) **Stock Certificates.** The rights under this Warrant shall be deemed to have been exercised and the Shares issuable upon such exercise shall be deemed to have been issued immediately prior to the close of business on the date this Warrant is exercised in accordance with its terms, and the person entitled to receive the Shares issuable upon such exercise shall be treated for all purposes as the holder of record of such Shares as of the close of business on such date. As promptly as reasonably practicable on or after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for that number of shares issuable upon such exercise. In the event that the rights under this Warrant are exercised in part and have not expired, the Company shall execute and deliver a new Warrant reflecting the number of Shares that remain subject to this Warrant.

(d) **No Fractional Shares or Scrip.** No fractional shares or scrip representing fractional shares shall be issued upon the exercise of the rights under this Warrant. In lieu of such fractional share to which the Holder would otherwise be entitled, the Company shall make a cash payment equal to the Exercise Price multiplied by such fraction.

(e) **Reservation of Stock.** The Company agrees during the term the rights under this Warrant are exercisable to reserve and keep available from its authorized and unissued shares of preferred stock for the purpose of effecting the exercise of this Warrant such number of shares (and shares of common stock for issuance on conversion of such shares) as shall from time to time be sufficient to effect the exercise of the rights under this Warrant; and if at any time the number of authorized but unissued shares of preferred stock (and shares of common stock for issuance on conversion of such shares) shall not be sufficient for purposes of the exercise of this Warrant in accordance with its terms and the conversion of the Shares, without limitation of such other remedies as may be available to the Holder, the Company will use its best efforts to take such corporate action as may be necessary to increase its authorized and unissued shares of its preferred stock (and shares of common stock for issuance on conversion of such shares) to a number of shares as shall be sufficient for such purposes.

**3. Replacement of the Warrant.** Subject to the receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at the expense of the Holder shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

#### 4. Transfer of the Warrant.

(a) **Warrant Register.** The Company shall maintain a register (the "**Warrant Register**") containing the name and address of the Holder or Holders. Until this Warrant is transferred on the Warrant Register in accordance herewith, the Company may treat the Holder as shown on the Warrant Register as the absolute owner of this Warrant for all purposes, notwithstanding any notice to the contrary. Any Holder of this Warrant (or of any portion of this Warrant) may change its address as shown on the Warrant Register by written notice to the Company requesting a change.

(b) **Warrant Agent.** The Company may appoint an agent for the purpose of maintaining the Warrant Register referred to in Section 4(a), issuing the Shares or other securities then issuable upon the exercise of the rights under this Warrant, exchanging this Warrant, replacing this Warrant or conducting related activities.

(c) **Transferability of the Warrant.** Subject to the provisions of this Warrant with respect to compliance with the Securities Act of 1933, as amended (the "**Securities Act**") and limitations on assignments and transfers, including without limitation compliance with the restrictions on transfer set forth in Section 5, title to this Warrant may be transferred by endorsement (by the transferor and the transferee executing the assignment form attached as Exhibit B (the "**Assignment Form**")) and delivery in the same manner as a negotiable instrument transferable by endorsement and delivery.

(d) **Exchange of the Warrant upon a Transfer.** On surrender of this Warrant (and a properly endorsed Assignment Form) for exchange, subject to the provisions of this Warrant with respect to compliance with the Securities Act and limitations on assignments and transfers, the Company shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of shares issuable upon exercise hereof, and the Company shall register any such transfer upon the Warrant Register. This Warrant (and the securities issuable upon exercise of the rights under this Warrant) must be surrendered to the Company or its warrant or transfer agent, as applicable, as a condition precedent to the sale, pledge, hypothecation or other transfer of any interest in any of the securities represented hereby.

(e) **Taxes.** In no event shall the Company be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of any certificate in a name other than that of the Holder, and the Company shall not be required to issue or deliver any such certificate unless and until the person or persons requesting the issue thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not payable.

**5. Restrictions on Transfer of the Warrant and Shares; Compliance with Securities Laws.** By acceptance of this Warrant, the Holder agrees to comply with the following:

(a) **Restrictions on Transfers.** Subject to Section 5(b), this Warrant may not be transferred or assigned in whole or in part without the Company's prior written consent (which shall not be unreasonably withheld), and any attempt by Holder to transfer or assign any rights, duties or obligations that arise under this Warrant without such permission shall be void. Any transfer of this Warrant or the Shares or the shares of common stock issuable upon conversion of the Shares (the "**Securities**") must be in compliance with all applicable federal and state securities laws. The Holder agrees not to make any sale, assignment, transfer, pledge or other disposition of all or any portion of the Securities, or any beneficial interest therein, unless and until the transferee thereof has agreed in writing for the benefit of the Company to take and hold such Securities subject to, and to be bound by, the terms and conditions set forth in this Warrant to the same extent as if the transferee were the original Holder hereunder, and

(i) there is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement, or



(ii) (A) such Holder shall have given prior written notice to the Company of such Holder's intention to make such disposition and shall have furnished the Company with a detailed description of the manner and circumstances of the proposed disposition, (B) the transferee shall have confirmed to the satisfaction of the Company in writing, substantially in the form of Exhibit A-1, that the Securities are being acquired (i) solely for the transferee's own account and not as a nominee for any other party, (ii) for investment and (iii) not with a view toward distribution or resale, and shall have confirmed such other matters related thereto as may be reasonably requested by the Company, and (C) such Holder shall have furnished the Company, at the Holder's expense, with (i) an opinion of counsel, reasonably satisfactory to the Company, to the effect that such disposition will not require registration of such Securities under the Securities Act or (ii) a "no action" letter from the Securities and Exchange Commission to the effect that the transfer of such Securities without registration will not result in a recommendation by the staff of the Securities and Exchange Commission that action be taken with respect thereto, whereupon such Holder shall be entitled to transfer such Securities in accordance with the terms of the notice delivered by the Holder to the Company.

(b) **Permitted Transfers.** Permitted transfers include (i) a transfer not involving a change in beneficial ownership, or (ii) transactions involving the distribution without consideration of Securities by any Holder to (x) a parent, subsidiary or other affiliate of a Holder that is a corporation, (y) any of the Holder's partners, members or other equity owners, or retired partners or members, or to the estate of any of its partners, members or other equity owners or retired partners or members, or (z) a venture capital fund that is controlled by or under common control with one or more general partners or managing members of, or shares the same management company with, the Holder; *provided*, in each case, that the Holder shall give written notice to the Company of the Holder's intention to effect such disposition and shall have furnished the Company with a detailed description of the manner and circumstances of the proposed disposition.

(c) **Investment Representation Statement.** Unless the rights under this Warrant are exercised pursuant to an effective registration statement under the Securities Act that includes the Shares with respect to which the Warrant was exercised, it shall be a condition to any exercise of the rights under this Warrant that the Holder shall have confirmed to the satisfaction of the Company in writing, substantially in the form of Exhibit A-1, that the Shares so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment and not with a view toward distribution or resale and that the Holder shall have confirmed such other matters related thereto as may be reasonably requested by the Company.

(d) **Securities Law Legend.** The Securities shall (unless otherwise permitted by the provisions of this Warrant) be stamped or imprinted with a legend substantially similar to the following (in addition to any legend required by state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED EXCEPT AS PERMITTED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS IN ACCORDANCE WITH APPLICABLE REGISTRATION REQUIREMENTS OR AN EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION OTHERWISE COMPLIES WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, TRANSFER, PLEDGE OR HYPOTHECATION OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED HEREBY.

(e) **Market Stand-off Legend.** The Shares and common stock issued upon exercise hereof or conversion thereof shall also be stamped or imprinted with a legend in substantially the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE, INCLUDING A LOCK-UP PERIOD IN THE EVENT OF A PUBLIC OFFERING, AS SET FORTH IN THE WARRANT PURSUANT TO WHICH THESE SHARES WERE ISSUED, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE COMPANY.

(f) **Instructions Regarding Transfer Restrictions.** The Holder consents to the Company making a notation on its records and giving instructions to any transfer agent in order to implement the restrictions on transfer established in this Section 5.

(g) **Removal of Legend.** The legend referring to federal and state securities laws identified in Section 5(d) stamped on a certificate evidencing the Shares (and the common stock issuable upon conversion thereof) and the stock transfer instructions and record notations with respect to such securities shall be removed and the Company shall issue a certificate without such legend to the holder of such securities if (i) such securities are registered under the Securities Act, or (ii) such holder provides the Company with an opinion of counsel reasonably acceptable to the Company to the effect that a sale or transfer of such securities may be made without registration or qualification.

**6. Adjustments.** Subject to the expiration of this Warrant pursuant to Section 8, the number and kind of shares purchasable hereunder and the Exercise Price therefor are subject to adjustment from time to time, as follows:

(a) **Merger or Reorganization.** If at any time there shall be any reorganization, recapitalization, merger or consolidation (a "**Reorganization**") involving the Company (other than as otherwise provided for herein or as would cause the expiration of this Warrant under Section 8) in which shares of the Company's stock are converted into or exchanged for securities, cash or other property, then, as a part of such Reorganization, lawful provision shall be made so that the Holder shall thereafter be entitled to receive upon exercise of this Warrant, the kind and amount of securities, cash or other property of the successor corporation resulting from such Reorganization, equivalent in value to that which a holder of the Shares deliverable upon exercise of this Warrant would have been entitled in such Reorganization if the right to purchase the Shares hereunder had been exercised immediately prior to such Reorganization. In any such case, appropriate adjustment (as determined in good faith by the Board of Directors of the successor corporation) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after such Reorganization to the end that the provisions of this Warrant shall be applicable after the event, as near as reasonably may be, in relation to any shares or other securities deliverable after that event upon the exercise of this Warrant.

(b) **Reclassification of Shares.** If the securities issuable upon exercise of this Warrant are changed into the same or a different number of securities of any other class or classes by reclassification, capital reorganization, conversion of all outstanding shares of the relevant class or series (other than as would cause the expiration of this Warrant pursuant to Section 8) or otherwise (other than as otherwise provided for herein) (a "**Reclassification**"), then, in any such event, in lieu of the number of Shares which the Holder would otherwise have been entitled to receive, the Holder shall have the right thereafter to exercise this Warrant for a number of shares of such other class or classes of stock that a holder of the number of securities deliverable upon exercise of this Warrant immediately before that change would have been entitled to receive in such Reclassification, all subject to further adjustment as provided herein with respect to such other shares.

(c) **Subdivisions and Combinations.** In the event that the outstanding shares of the securities issuable upon exercise of this Warrant are subdivided (by stock split, by payment of a stock dividend or otherwise) into a greater number of shares of such securities, the number of Shares issuable upon exercise of the rights under this Warrant immediately prior to such subdivision shall, concurrently with the effectiveness of such subdivision, be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the outstanding shares of the securities issuable upon exercise of this Warrant are combined (by reclassification or otherwise) into a lesser number of shares of such securities, the number of Shares issuable upon exercise of the rights under this Warrant immediately prior to such combination shall, concurrently with the effectiveness of such combination, be proportionately decreased, and the Exercise Price shall be proportionately increased.

(d) **Notice of Adjustments.** Upon any adjustment in accordance with this Section 6, the Company shall give notice thereof to the Holder, which notice shall state the event giving rise to the adjustment, the Exercise Price as adjusted and the number of securities or other property purchasable upon the exercise of the rights under this Warrant, setting forth in reasonable detail the method of calculation of each. The Company shall, upon the written request of any Holder, furnish or cause to be furnished to such Holder a certificate setting forth (i) such adjustments, (ii) the Exercise Price at the time in effect and (iii) the number of securities and the amount, if any, of other property that at the time would be received upon exercise of this Warrant.

**7. Notification of Certain Events.** Prior to the expiration of this Warrant pursuant to Section 8, in the event that the Company shall authorize:

(a) the issuance of any dividend or other distribution on the capital stock of the Company (other than (i) dividends or distributions otherwise provided for in Section 6, (ii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries upon termination of their employment or services pursuant to agreements providing for the right of said repurchase; (iii) repurchases of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries pursuant to rights of first refusal or first offer contained in agreements providing for such rights; or (iv) repurchases of capital stock of the Company in connection with the settlement of disputes with any stockholder), whether in cash, property, stock or other securities;

(b) the voluntary liquidation, dissolution or winding up of the Company; or

(c) any transaction resulting in the expiration of this Warrant pursuant to Section 8(b) or 8(c);

the Company shall send to the Holder of this Warrant at least ten (10) days prior written notice of the date on which a record shall be taken for any such dividend or distribution specified in clause (a) or the expected effective date of any such other event specified in clause (b) or (c), as applicable. The notice provisions set forth in this section may be shortened or waived prospectively or retrospectively by the consent of the holders of a majority of the Shares issuable upon exercise of the rights under the Warrants.

**8. Expiration of the Warrant.** This Warrant shall expire and shall no longer be exercisable as of the earlier of:

(a) \_\_\_\_ p.m., Pacific time, on \_\_\_\_\_;

(b) (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions to which the Company is a party (including, without limitation, any stock acquisition, reorganization, merger or consolidation, but excluding any sale of stock for capital raising purposes and any transaction effected primarily for purposes of changing the Company's jurisdiction of incorporation) other than a transaction or series of related transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction or series of related transactions retain, immediately after such transaction or series of transactions, as a result of shares in the Company held by such holders prior to such transaction or series of transactions, at least a majority of the total voting power represented by the outstanding voting securities of the Company or such other surviving or resulting entity (or if the Company or such other surviving or resulting entity is a wholly-owned subsidiary immediately following such acquisition, its parent), or (ii) a sale, lease or other disposition of all or substantially all of the assets of the Company and its subsidiaries taken as a whole by means of any transaction or series of related transactions, except where such sale, lease or other disposition is to a wholly-owned subsidiary of the Company; or

(c) Immediately prior to the closing of a firm commitment underwritten public offering pursuant to an effective registration statement filed under the Securities Act covering the offering and sale of the Company's common stock.

**9. No Rights as a Stockholder.** Nothing contained herein shall entitle the Holder to any rights as a stockholder of the Company or to be deemed the holder of any securities that may at any time be issuable on the exercise of the rights hereunder for any purpose nor shall anything contained herein be construed to confer upon the Holder, as such, any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, merger, conveyance or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or any other rights of a stockholder of the Company until the rights under the Warrant shall have been exercised and the Shares purchasable upon exercise of the rights hereunder shall have become deliverable as provided herein.

**10. Market Stand-off.** The Holder of this Warrant hereby agrees that such Holder shall not sell or otherwise transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, of any common stock (or other securities) of the Company held by the Holder (other than those included in the registration) during the one hundred eighty (180) day period following the effective date of the registration statement for the Company's initial public offering filed under the Securities Act (or such other period as may be requested by the Company or an underwriter to accommodate regulatory restrictions on (i) the publication or other

distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in NASD Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto). The obligations described in this section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions and may stamp each certificate with a legend as substantially set forth in Section 5(e) with respect to the shares of common stock (or other securities) subject to the foregoing restriction until the end of such one hundred eighty (180) day (or other) period. The Holder agrees to execute a market stand-off agreement with the underwriters in the offering in customary form consistent with the provisions of this section.

**11. Representations and Warranties of the Holder.** By acceptance of this Warrant, the Holder represents and warrants to the Company as follows:

(a) **No Registration.** The Holder understands that the Securities have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Holder's representations as expressed herein or otherwise made pursuant hereto.

(b) **Investment Intent.** The Holder is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof. The Holder has no present intention of selling, granting any participation in, or otherwise distributing the Securities, nor does it have any contract, undertaking, agreement or arrangement for the same.

(c) **Investment Experience.** The Holder has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company, and has such knowledge and experience in financial or business matters so that it is capable of evaluating the merits and risks of its investment in the Company and protecting its own interests.

(d) **Speculative Nature of Investment.** The Holder understands and acknowledges that the Company has a limited financial and operating history and that its investment in the Company is highly speculative and involves substantial risks. The Holder can bear the economic risk of its investment and is able, without impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

(e) **Access to Data.** The Holder has had an opportunity to ask questions of officers of the Company, which questions were answered to its satisfaction. The Holder believes that it has received all the information that it considers necessary or appropriate for deciding whether to acquire the Securities. The Holder understands that any such discussions, as well as any information issued by the Company, were intended to describe certain aspects of the Company's business and prospects, but were not necessarily a thorough or exhaustive description. The Holder acknowledges that any business plans prepared by the Company have been, and continue to be, subject to change and that any projections included in such business plans or otherwise are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results.

(f) **Accredited Investor.** The Holder is an "accredited investor" within the meaning of Regulation D, Rule 501(a), promulgated by the Securities and Exchange Commission and agrees to submit to the Company such further assurances of such status as may be reasonably requested by the Company.

(g) **Residency.** The residency of the Holder (or, in the case of a partnership or corporation, such entity's principal place of business) is correctly set forth on the signature page hereto.

(h) **Restrictions on Resales.** The Holder acknowledges that the Securities must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available. The Holder is aware of the provisions of Rule 144 promulgated under the Securities Act, which permit resale of shares purchased in a private placement subject to the satisfaction of certain conditions, which may include, among other things, the availability of certain current public information about the Company; the resale occurring not less than a specified period after a party has purchased and paid for the security to be sold; the number of shares being sold during any three-month period not exceeding specified limitations; the sale being effected through a "broker's transaction," a transaction directly with a "market maker" or a "riskless principal transaction" (as those terms are defined in the Securities Act or the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder); and the filing of a Form 144 notice, if applicable. The Holder acknowledges and understands that the Company may not be satisfying the current public information requirement of Rule 144 at the time the Holder wishes to sell the Securities and that, in such event, the Holder may be precluded from selling the Securities under Rule 144 even if the other applicable requirements of Rule 144 have been satisfied. The Holder acknowledges that, in the event the applicable requirements of Rule 144 are not met, registration under the Securities Act or an exemption from registration will be required for any disposition of the Securities. The Holder understands that, although Rule 144 is not exclusive, the Securities and Exchange Commission has expressed its opinion that persons proposing to sell restricted securities received in a private offering other than in a registered offering or pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales and that such persons and the brokers who participate in the transactions do so at their own risk.

(i) **No Public Market.** The Holder understands and acknowledges that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Company's securities.

(j) **Brokers and Finders.** The Holder has not engaged any brokers, finders or agents in connection with the Securities, and the Company has not incurred nor will incur, directly or indirectly, as a result of any action taken by the Holder, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with the Securities.

(k) **Legal Counsel.** The Holder has had the opportunity to review this Warrant, the exhibits and schedules attached hereto and the transactions contemplated by this Warrant with its own legal counsel. The Holder is not relying on any statements or representations of the Company or its agents for legal advice with respect to this investment or the transactions contemplated by this Warrant.

(l) **Tax Advisors.** The Holder has reviewed with its own tax advisors the U.S. federal, state and local and non-U.S. tax consequences of this investment and the transactions contemplated by this Warrant. With respect to such matters, the Holder relies solely on any such advisors and not on any statements or representations of the Company or any of its agents, written or oral. The Holder understands that it (and not the Company) shall be responsible for its own tax liability that may arise as a result of this investment and the transactions contemplated by this Warrant.

## 12. Miscellaneous.

(a) **Amendments.** Except as expressly provided herein, neither this Warrant nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument referencing this Warrant and signed by the Company and the holders of warrants representing not less than

a majority of the Shares issuable upon exercise of any and all outstanding Warrants, which majority does not need to include the consent of the Holder. Any amendment, waiver, discharge or termination effected in accordance with this Section 12(a) shall be binding upon each holder of the Warrants, each future holder of such Warrants and the Company; *provided, however*, that no special consideration or inducement may be given to any such holder in connection with such consent that is not given ratably to all such holders, and that such amendment must apply to all such holders equally and ratably in accordance with the number of shares of Stock issuable upon exercise of the Warrants. The Company shall promptly give notice to all holders of Warrants of any amendment effected in accordance with this Section 12(a).

(b) **Waivers.** No waiver of any single breach or default shall be deemed a waiver of any other breach or default theretofore or thereafter occurring.

(c) **Notices.** All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by facsimile or electronic mail (if to the Holder) or otherwise delivered by hand, messenger or courier service addressed:

(i) if to the Holder, to the Holder at the Holder's address, facsimile number or electronic mail address as shown in the Company's records, as may be updated in accordance with the provisions hereof, or until any such Holder so furnishes an address, facsimile number or electronic mail address to the Company, then to and at the address, facsimile number or electronic mail address of the last holder of this Warrant for which the Company has contact information in its records; or

(ii) if to the Company, to the attention of the President or Chief Financial Officer of the Company at the Company's address as shown on the signature page hereto, or at such other address as the Company shall have furnished to the Holder, with a copy to Kenneth A. Clark, Wilson Sonsini Goodrich & Rosati, P.C., 650 Page Mill Road, Palo Alto, CA 94301.

Each such notice or other communication shall for all purposes of this Warrant be treated as effective or having been given (i) if delivered by hand, messenger or courier service, when delivered, or (ii) if sent by mail, at the earlier of its receipt or 72 hours after the same has been deposited in a regularly-maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid, or (iii) if sent by facsimile, upon confirmation of facsimile transfer or, if sent by electronic mail, upon confirmation of delivery when directed to the relevant electronic mail address. In the event of any conflict between the Company's books and records and this Warrant or any notice delivered hereunder, the Company's books and records will control absent fraud or error.

(d) **Governing Law.** This Warrant and all actions arising out of or in connection with this Warrant shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

(e) **Jurisdiction and Venue.** Each of the Holder and the Company irrevocably consents to the exclusive jurisdiction and venue of any court within Santa Clara County, State of California, in connection with any matter based upon or arising out of this Warrant or the matters contemplated herein, and agrees that process may be served upon them in any manner authorized by the laws of the State of California for such persons.

(f) **Titles and Subtitles.** The titles and subtitles used in this Warrant are used for convenience only and are not to be considered in construing or interpreting this Warrant. All references in this Warrant to sections, paragraphs and exhibits shall, unless otherwise provided, refer to sections and paragraphs hereof and exhibits attached hereto.

(g) **Severability.** If any provision of this Warrant becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, portions of such provision, or such provision in its entirety, to the extent necessary, shall be severed from this Warrant, and such illegal, unenforceable or void provision shall be replaced with a valid and enforceable provision that will achieve, to the extent possible, the same economic, business and other purposes of the illegal, unenforceable or void provision. The balance of this Warrant shall be enforceable in accordance with its terms.

(h) **Waiver of Jury Trial.** EACH OF THE HOLDER AND THE COMPANY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATED TO THIS WARRANT. If the waiver of jury trial set forth in this paragraph is not enforceable, then any claim or cause of action arising out of or relating to this Warrant shall be settled by judicial reference pursuant to California Code of Civil Procedure Section 638 *et seq.* before a referee sitting without a jury, such referee to be mutually acceptable to the parties or, if no agreement is reached, by a referee appointed by the Presiding Judge of the California Superior Court for Santa Clara County. This paragraph shall not restrict the Holder or the Company from exercising remedies under the Uniform Commercial Code or from exercising pre-judgment remedies under applicable law.

(i) **California Corporate Securities Law.** THE SALE OF THE SECURITIES THAT ARE THE SUBJECT OF THIS WARRANT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATION BY SECTION 25100, 25102, OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS WARRANT ARE EXPRESSLY CONDITIONED UPON THE QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

(j) **Rights and Obligations Survive Exercise of the Warrant.** Except as otherwise provided herein, the rights and obligations of the Company and the Holder under this Warrant shall survive exercise of this Warrant.

(k) **Entire Agreement.** Except as expressly set forth herein, this Warrant (including the exhibits attached hereto) constitutes the entire agreement and understanding of the Company and the Holder with respect to the subject matter hereof and supersede all prior agreements and understandings relating to the subject matter hereof.

(signature page follows)



---

The Company and the Holder sign this Warrant as of the date stated on the first page.

**SUTRO BIOPHARMA, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address:

310 Utah Avenue, Suite 150  
South San Francisco, CA 94080

**AGREED AND ACKNOWLEDGED,**

\_\_\_\_\_

Address:

Fax number:

Email address:

*(Signature Page to Warrant to Purchase Shares of Preferred Stock of Sutro Biopharma, Inc.)*

**EXHIBIT A**  
**NOTICE OF EXERCISE**

**TO: SUTRO BIOPHARMA, INC. (the "Company")**

**Attention: President**

(1) **Exercise.** The undersigned elects to purchase the following pursuant to the terms of the attached warrant:

Number of shares: \_\_\_\_\_

Type of security: \_\_\_\_\_

(2) **Method of Exercise.** The undersigned elects to exercise the attached warrant pursuant to:

A cash payment, and tenders herewith payment of the purchase price for such shares in full, together with all applicable transfer taxes, if any.

The net issue exercise provisions of Section 2(b) of the attached warrant.

(3) **Stock Certificate.** Please issue a certificate or certificates representing the shares in the name of:

The undersigned

Other—Name: \_\_\_\_\_

Address: \_\_\_\_\_

(4) **Unexercised Portion of the Warrant.** Please issue a new warrant for the unexercised portion of the attached warrant in the name of:

The undersigned

Other—Name: \_\_\_\_\_

Address: \_\_\_\_\_

Not applicable

(5) **Investment Intent.** The undersigned represents and warrants that the aforesaid shares are being acquired for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of selling, granting any participation in, or otherwise distributing the shares, nor does it have any contract, undertaking, agreement or arrangement for the same, and all representations and warranties of the undersigned set forth in Section 11 of the attached warrant are true and correct as of the date hereof.

- (6) **Investment Representation Statement and Market Stand-Off Agreement.** The undersigned has executed, and delivers herewith, an Investment Representation Statement and Market Stand-Off Agreement in a form substantially similar to the form attached to the warrant as Exhibit A-1.
- (7) **Consent to Receipt of Electronic Notice.** Subject to the limitations set forth in Delaware General Corporation Law §232(e), the undersigned consents to the delivery of any notice to stockholders given by the Company under the Delaware General Corporation Law or the Company's certificate of incorporation or bylaws by (i) facsimile telecommunication to the facsimile number provided below (or to any other facsimile number for the undersigned in the Company's records), (ii) electronic mail to the electronic mail address provided below (or to any other electronic mail address for the undersigned in the Company's records), (iii) posting on an electronic network together with separate notice to the undersigned of such specific posting or (iv) any other form of electronic transmission (as defined in the Delaware General Corporation Law) directed to the undersigned. This consent may be revoked by the undersigned by written notice to the Company and may be deemed revoked in the circumstances specified in Delaware General Corporation Law §232.

\_\_\_\_\_  
*(Print name of the warrant holder)*

\_\_\_\_\_  
*(Signature)*

\_\_\_\_\_  
*(Name and title of signatory, if applicable)*

\_\_\_\_\_  
*(Date)*

\_\_\_\_\_  
*(Fax number)*

\_\_\_\_\_  
*(Email address)*

*(Signature page to the Notice of Exercise)*

**EXHIBIT A-1**  
**INVESTMENT REPRESENTATION STATEMENT**  
**AND**  
**MARKET STAND-OFF AGREEMENT**

INVESTOR: \_\_\_\_\_  
COMPANY: SUTRO BIOPHARMA, INC.  
SECURITIES: THE WARRANT ISSUED ON \_\_\_\_\_ (THE "*WARRANT*") AND THE SECURITIES ISSUED OR  
ISSUABLE UPON EXERCISE THEREOF (INCLUDING UPON SUBSEQUENT CONVERSION OF THOSE  
SECURITIES)  
DATE: \_\_\_\_\_

In connection with the purchase or acquisition of the above-listed Securities, the undersigned Investor represents and warrants to, and agrees with, the Company as follows:

1. **No Registration.** The Investor understands that the Securities have not been, and will not be, registered under the Securities Act of 1933, as amended (the "*Securities Act*"), by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the *bona fide* nature of the investment intent and the accuracy of the Investor's representations as expressed herein or otherwise made pursuant hereto.
2. **Investment Intent.** The Investor is acquiring the Securities for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof. The Investor has no present intention of selling, granting any participation in, or otherwise distributing the Securities, nor does it have any contract, undertaking, agreement or arrangement for the same.
3. **Investment Experience.** The Investor has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company, and has such knowledge and experience in financial or business matters so that it is capable of evaluating the merits and risks of its investment in the Company and protecting its own interests.
4. **Speculative Nature of Investment.** The Investor understands and acknowledges that the Company has a limited financial and operating history and that its investment in the Company is highly speculative and involves substantial risks. The Investor can bear the economic risk of its investment and is able, without impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.
5. **Access to Data.** The Investor has had an opportunity to ask questions of officers of the Company, which questions were answered to its satisfaction. The Investor believes that it has received all the information that it considers necessary or appropriate for deciding whether to acquire the Securities. The Investor understands that any such discussions, as well as any information issued by the Company, were intended to describe certain aspects of the Company's business and prospects, but were not necessarily a thorough or exhaustive description. The Investor acknowledges that any business plans prepared by the

---

Company have been, and continue to be, subject to change and that any projections included in such business plans or otherwise are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results.

6. **Accredited Investor.** The Investor is an “accredited investor” within the meaning of Regulation D, Rule 501(a), promulgated by the Securities and Exchange Commission and agrees to submit to the Company such further assurances of such status as may be reasonably requested by the Company.

7. **Residency.** The residency of the Investor (or, in the case of a partnership or corporation, such entity’s principal place of business) is correctly set forth on the signature page hereto.

8. **Restrictions on Resales.** The Investor acknowledges that the Securities must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available. The Investor is aware of the provisions of Rule 144 promulgated under the Securities Act, which permit resale of shares purchased in a private placement subject to the satisfaction of certain conditions, which may include, among other things, the availability of certain current public information about the Company; the resale occurring not less than a specified period after a party has purchased and paid for the security to be sold; the number of shares being sold during any three-month period not exceeding specified limitations; the sale being effected through a “broker’s transaction,” a transaction directly with a “market maker” or a “riskless principal transaction” (as those terms are defined in the Securities Act or the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder); and the filing of a Form 144 notice, if applicable. The Investor acknowledges and understands that the Company may not be satisfying the current public information requirement of Rule 144 at the time the Investor wishes to sell the Securities and that, in such event, the Investor may be precluded from selling the Securities under Rule 144 even if the other applicable requirements of Rule 144 have been satisfied. The Investor understands and acknowledges that, in the event the applicable requirements of Rule 144 are not met, registration under the Securities Act or an exemption from registration will be required for any disposition of the Securities. The Investor understands that, although Rule 144 is not exclusive, the Securities and Exchange Commission has expressed its opinion that persons proposing to sell restricted securities received in a private offering other than in a registered offering or pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for those offers or sales and that those persons and the brokers who participate in the transactions do so at their own risk.

9. **No Public Market.** The Holder understands and acknowledges that no public market now exists for any of the securities issued by the Company and that the Company has made no assurances that a public market will ever exist for the Company’s securities.

10. **Brokers and Finders.** The Investor has not engaged any brokers, finders or agents in connection with the Securities, and the Company has not incurred nor will incur, directly or indirectly, as a result of any action taken by the Investor, any liability for brokerage or finders’ fees or agents’ commissions or any similar charges in connection with the Securities.

11. **Legal Counsel.** The Investor has had the opportunity to review the Warrant, the exhibits and schedules attached thereto and the transactions contemplated by the Warrant with its own legal counsel. The Investor is not relying on any statements or representations of the Company or its agents for legal advice with respect to this investment or the transactions contemplated by the Warrant.

12. **Tax Advisors.** The Investor has reviewed with its own tax advisors the U.S. federal, state and local and non-U.S. tax consequences of this investment and the transactions contemplated by the Warrant. With respect to such matters, the Investor relies solely on such advisors and not on any statements or representations of the Company or any of its agents, written or oral. The Investor understands that it (and not the Company) shall be responsible for its own tax liability that may arise as a result of this investment or the transactions contemplated by the Warrant.

---

13. **Market Stand-off.** The Investor agrees that the Investor shall not sell or otherwise transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, of any common stock (or other securities) of the Company held by the Investor (other than those included in the registration) during the one hundred eighty (180) day period following the effective date of the registration statement for the Company's initial public offering filed under the Securities Act (or such other period as may be requested by the Company or an underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in NASD Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto). The obligations described in this section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions and may stamp each certificate with a legend with respect to the shares of common stock (or other securities) subject to the foregoing restriction until the end of such one hundred eighty (180) day (or other) period. The Investor agrees to execute a market stand-off agreement with the relevant underwriters in customary form consistent with the provisions of this section.

*(signature page follows)*

---

The Investor is signing this Investment Representation Statement and Market Stand-Off Agreement on the date first written above.

**INVESTOR**

---

*(Print name of the investor)*

---

*(Signature)*

---

*(Name and title of signatory, if applicable)*

---

*(Street address)*

---

*(City, state and ZIP)*

A-1-4

**EXHIBIT B**  
**ASSIGNMENT FORM**

ASSIGNOR: \_\_\_\_\_  
COMPANY: SUTRO BIOPHARMA, INC.  
WARRANT: THE WARRANT TO PURCHASE SHARES OF PREFERRED STOCK ISSUED ON \_\_\_\_\_ (THE  
"WARRANT")  
DATE: \_\_\_\_\_

- (1) **Assignment.** The undersigned registered holder of the Warrant ("*Assignor*") assigns and transfers to the assignee named below ("*Assignee*") all of the rights of Assignor under the Warrant, with respect to the number of shares set forth below:

Name of Assignee: \_\_\_\_\_

Address of Assignee: \_\_\_\_\_

Number of Shares Assigned: \_\_\_\_\_

and does irrevocably constitute and appoint \_\_\_\_\_ as attorney to make such transfer on the books of Sutro Biopharma, Inc., maintained for the purpose, with full power of substitution in the premises.

- (2) **Obligations of Assignee.** Assignee agrees to take and hold the Warrant and any shares of stock to be issued upon exercise of the rights thereunder (and any shares issuable upon conversion thereof) (the "*Securities*") subject to, and to be bound by, the terms and conditions set forth in the Warrant to the same extent as if Assignee were the original holder thereof.
- (3) **Investment Intent.** Assignee represents and warrants that the Securities are being acquired for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, the distribution thereof, and that Assignee has no present intention of selling, granting any participation in, or otherwise distributing the shares, nor does it have any contract, undertaking, agreement or arrangement for the same, and all representations and warranties set forth in Section 11 of the Warrant are true and correct as to Assignee as of the date hereof.
- (4) **Investment Representation Statement and Market Stand-Off Agreement.** Assignee has executed, and delivers herewith, an Investment Representation Statement and Market Stand-Off Agreement in a form substantially similar to the form attached to the Warrant as Exhibit A-1.



Assignor and Assignee are signing this Assignment Form on the date first set forth above.

**ASSIGNOR**

**ASSIGNEE**

\_\_\_\_\_  
*(Print name of Assignor)*

\_\_\_\_\_  
*(Print name of Assignee)*

\_\_\_\_\_  
*(Signature of Assignor)*

\_\_\_\_\_  
*(Signature of Assignee)*

\_\_\_\_\_  
*(Print name of signatory, if applicable)*

\_\_\_\_\_  
*(Print name of signatory, if applicable)*

\_\_\_\_\_  
*(Print title of signatory, if applicable)*

\_\_\_\_\_  
*(Print title of signatory, if applicable)*

Address:

Address:

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

### WARRANT TO PURCHASE STOCK

**Company:** SUTRO BIOPHARMA, INC.  
**Number of Shares:** That number of Shares (rounded down to the nearest whole number) which could be purchased by taking \$ \_\_\_\_\_, divided by the Warrant Price (the "Initial Shares"), plus all Additional Shares which Holder is entitled to purchase pursuant to Section 1.7.  
**Type/Series of Stock:** Series C Preferred Stock  
**Warrant Price:** \$ \_\_\_\_\_ per share  
**Issue Date:** \_\_\_\_\_  
**Expiration Date:** \_\_\_\_\_ **See also Section 5.1(b).**  
**Credit Facility:** This Warrant to Purchase Stock ("Warrant") is issued in connection with that certain Loan and Security Agreement dated as of even date herewith between \_\_\_\_\_ and the Company (as amended, modified, supplemented or restated, the "Loan Agreement").

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, \_\_\_\_\_ (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, "Holder") is entitled to purchase the number of fully paid and non-assessable shares (the "Shares") of the above-stated Type/Series of Stock (the "Class") of the above-named company (the "Company") at the above-stated Warrant Price, all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant. Reference is made to Section 5.4 of this Warrant whereby \_\_\_\_\_ shall transfer this Warrant to its parent company, \_\_\_\_\_.

#### SECTION 1. EXERCISE.

1.1 Method of Exercise. Holder may at any time and from time to time exercise this Warrant, in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and, unless Holder is exercising this Warrant pursuant to a cashless exercise as set forth in Section 1.2, a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Cashless Exercise. On any exercise of this Warrant, in lieu of payment of the aggregate Warrant Price in the manner as specified in Section 1.1 above, but otherwise in accordance with the requirements of Section 1.1, Holder may elect to receive Shares equal to the value of this Warrant, or portion hereof as to which this Warrant is being exercised. Thereupon, the Company shall issue to the Holder such number of fully paid and non-assessable Shares as are computed using the following formula:

$$X = Y(A-B)/A$$

where:

X = the number of Shares to be issued to the Holder;

Y = the number of Shares with respect to which this Warrant is being exercised (inclusive of the Shares surrendered to the Company in payment of the aggregate Warrant Price);

A = the Fair Market Value (as determined pursuant to Section 1.3 below) of one Share; and

B = the Warrant Price.

1.3 Fair Market Value. If the Company's common stock is then traded or quoted on a nationally recognized securities exchange, inter-dealer quotation system or over-the-counter market (a "Trading Market") and the Class is common stock, the fair market value of a Share shall be the closing price or last sale price of a share of common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company. If the Company's common stock is then traded in a Trading Market and the Class is a series of the Company's convertible preferred stock, the fair market value of a Share shall be the closing price or last sale price of a share of the Company's common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company multiplied by the number of shares of the Company's common stock into which a Share is then convertible. If the Company's common stock is not traded in a Trading Market, the Board of Directors of the Company shall determine the fair market value of a Share in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 or 1.2 above, the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation, the Company shall, within a reasonable time, execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

#### 1.6 Treatment of Warrant Upon Acquisition of Company.

(a) Acquisition. For the purpose of this Warrant, "Acquisition" means any transaction or series of related transactions involving: (i) the sale, lease, exclusive license, or other disposition of all or substantially all of the assets of the Company; (ii) any merger or consolidation of the Company into or with another person or entity (other than a merger or consolidation effected exclusively to change the Company's domicile), or any other corporate reorganization, in which the stockholders of the Company in their capacity as such immediately prior to such merger, consolidation or reorganization, own less than a majority of the Company's (or the surviving or successor entity's) outstanding voting power immediately after such merger, consolidation or reorganization; or (iii) any sale or other transfer by the stockholders of the Company of shares representing at least a majority of the Company's then-total outstanding combined voting power.

(b) **Treatment of Warrant at Acquisition.** In the event of an Acquisition in which the consideration to be received by the Company's stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a "**Cash/Public Acquisition**"), either (i) Holder shall exercise this Warrant pursuant to Section 1.1 and/or 1.2 and such exercise will be deemed effective immediately prior to and contingent upon the consummation of such Acquisition or (ii) if Holder elects not to exercise the Warrant, this Warrant will expire immediately prior to the consummation of such Acquisition.

(c) The Company shall provide Holder with written notice of its request relating to the Cash/Public Acquisition (together with such reasonable information as Holder may reasonably require regarding the treatment of this Warrant in connection with such contemplated Cash/Public Acquisition giving rise to such notice), which is to be delivered to Holder not less than seven (7) Business Days prior to the closing of the proposed Cash/Public Acquisition. In the event the Company does not provide such notice, then if, immediately prior to the Cash/Public Acquisition, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above would be greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall promptly notify the Holder of the number of Shares (or such other securities) issued upon such exercise to the Holder and Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as the date thereof.

(d) Upon the closing of any Acquisition other than a Cash/Public Acquisition defined above, the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and/or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(e) As used in this Warrant, "**Marketable Securities**" means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in a Trading Market, and (iii) Holder would not be restricted by contract or by applicable federal and state securities laws from publicly re-selling, within six (6) months following the closing of such Acquisition, all of the issuer's shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise this Warrant in full on or prior to the closing of such Acquisition.

1.7 **Additional Shares.** In addition to the Initial Shares granted to Holder on the Issue Date, at the time of the funding of the Tranche Two Equipment Advance (as defined in the Loan Agreement), the Company shall be deemed to have automatically granted to Holder, in addition to the number of Shares which this Warrant can otherwise be exercised for by Holder, the right to purchase that number of additional Shares (rounded down to the nearest whole number) which could be purchased by taking \$ \_\_\_\_\_, divided by the Warrant Price (such additional Shares being called the "**Additional Shares**").

---

## SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in common stock or other securities or property (other than cash), then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder, the total number and kind of securities and property which Holder would have received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations substitutions, replacements or other similar events.

2.3 Conversion of Preferred Stock. If the Class is a class and series of the Company's convertible preferred stock, in the event that all outstanding shares of the Class are converted, automatically or by action of the holders thereof, into common stock pursuant to the provisions of the Company's Certificate of Incorporation, including, without limitation, in connection with the Company's initial, underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Act (the "**IPO**"), then from and after the date on which all outstanding shares of the Class have been so converted, this Warrant shall be exercisable for such number of shares of common stock into which the Shares would have been converted had the Shares been outstanding on the date of such conversion, and the Warrant Price shall equal the Warrant Price in effect as of immediately prior to such conversion divided by the number of shares of common stock into which one Share would have been converted, all subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant.

2.4 Adjustments for Diluting Issuances. Without duplication of any adjustment otherwise provided for in this Section 2, the number of shares of common stock issuable upon conversion of the Shares shall be subject to anti-dilution adjustment from time to time in the manner set forth in the Company's Articles or Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment.

2.5 No Fractional Share. No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by the fair market value (as determined in accordance with Section 1.3 above) of a full Share.

2.6 Notice/Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than the price per share at which shares of the Class were last sold and issued prior to the Issue Date hereof in an arms-length transaction in which at least \$\_\_\_\_\_ of such shares were sold.

(b) All Shares which may be issued upon the exercise of this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws. The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class, common stock and other securities as will be sufficient to permit the exercise in full of this Warrant and the conversion of the Shares into common stock or such other securities.

(c) The Company's capitalization table attached hereto as Schedule 1 is true and complete, in all material respects, as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class or common stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company's stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class;

(d) effect an Acquisition or to liquidate, dissolve or wind up; or

(e) effect an IPO;

then, in connection with each such event, the Company shall give Holder:

(1) at least seven (7) Business Days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of outstanding shares of the Class will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (a) and (b) above;

(2) in the case of the matters referred to in (c) and (d) above at least seven (7) Business Days prior written notice of the date when the same will take place (and specifying the date on which the holders of outstanding shares of the Class will be entitled to exchange their shares for the securities or other property deliverable upon the occurrence of such event); and

(3) with respect to the IPO, at least seven (7) Business Days prior written notice of the date on which the Company proposes to file its registration statement in connection therewith.

Reference is made to Section 1.6(c) whereby this Warrant will be deemed to be exercised pursuant to Section 1.2 hereof if the Company does not give written notice to Holder of a Cash/Public Acquisition as required by the terms hereof. Company will also provide information requested by Holder that is reasonably necessary to enable Holder to comply with Holder's accounting or reporting requirements.

**3.3 Registration Under Securities Act of 1933, as amended** The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall have certain "piggyback" and "S-3" registration rights in parity with the investors pursuant to and as set forth in the Company's Amended and Restated Investors' Rights Agreement dated November 5, 2010 (the "**Rights Agreement**"), which rights shall be effective as of the date that the Company receives the requisite investor consent and an executed amendment to the Rights Agreement from Holder substantially in the form attached hereto as Exhibit A, joining the Holder as a party to the Rights Agreement, which shall occur no later than the earlier of (a) the Company's next financing round, or (b) upon any exercise or conversion of this Warrant. The provisions set forth in the Rights Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification, or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to Holder.

#### SECTION 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER.

The Holder represents and warrants to the Company as follows:

**4.1 Purchase for Own Account.** This Warrant and the securities to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

**4.2 Disclosure of Information.** Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

**4.3 Investment Experience.** Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an “accredited investor” within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder’s investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

4.6 Lock-Up Agreement. The Holder agrees that the Shares shall be subject to the Lock-Up provisions in Section 11 of the Rights Agreement.

4.7 No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the exercise of this Warrant.

SECTION 5. MISCELLANEOUS.

5.1 Term and Automatic Conversion Upon Expiration.

(a) Term. Subject to the provisions of Section 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Pacific time, on the Expiration Date and shall be void thereafter.

(b) Automatic Cashless Exercise upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall, within a reasonable time, deliver a certificate representing the Shares (or such other securities) issued upon such exercise to Holder.

5.2 Legends. The Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**ACT**”), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO \_\_\_\_\_ DATED \_\_\_\_\_ MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.



The Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall also be imprinted with the legends described in, and required by, the Rights Agreement.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require \_\_\_\_\_ to provide an opinion of counsel if the transfer is to \_\_\_\_\_ (\_\_\_\_\_ parent company) or any other affiliate of Holder, provided that any such transferee is an "accredited investor" as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of Rule 144 promulgated under the Act.

5.4 Transfer Procedure. After receipt by \_\_\_\_\_ of the executed Warrant, \_\_\_\_\_ will transfer all of this Warrant to its parent company, \_\_\_\_\_. By its acceptance of this Warrant, \_\_\_\_\_ hereby makes to the Company each of the representations and warranties set forth in Section 4 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. Subject to the provisions of Section 5.3 and upon providing the Company with written notice, \_\_\_\_\_ and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, \_\_\_\_\_ or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable); and provided further, that any subsequent transferee other than \_\_\_\_\_ shall agree in writing with the Company to be bound by all of the terms and conditions of this Warrant. Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company's prior written consent, transfer this Warrant or any portion hereof, or any Shares issued upon any exercise hereof, or any shares or other securities issued upon any conversion of any Shares issued upon any exercise hereof, to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

5.5 Notices. All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3<sup>rd</sup>) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section 5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

Attn: \_\_\_\_\_

Telephone: \_\_\_\_\_

Facsimile: \_\_\_\_\_

Email address: \_\_\_\_\_

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

Sutro Biopharma, Inc.  
310 Utah Ave., Suite 150  
South San Francisco, California 94080  
Attn: Jay Shukert, Chief Financial Officer  
Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email address: \_\_\_\_\_

With a copy (which shall not constitute notice) to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email address: \_\_\_\_\_

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorney's Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Counterparts; Facsimile/Electronic Signatures. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

5.9 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

5.10 Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

5.11 Business Days. "**Business Day**" is any day that is not a Saturday, Sunday or a day on which \_\_\_\_\_ is closed.

[Remainder of page left blank intentionally]  
[Signature page follows]

---

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives effective as of the Issue Date written above.

“COMPANY”

SUTRO BIOPHARMA, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_  
(Print)

Title:

“HOLDER”

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_  
(Print)

Title:

APPENDIX 1  
NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right purchase \_\_\_\_\_ shares of the Common/Series \_\_\_\_ Preferred [circle one] Stock of Sutro Biopharma, Inc. (the "**Company**") in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

- check in the amount of \$\_\_\_\_\_ payable to order of the Company enclosed herewith
- Wire transfer of \$\_\_\_\_\_ in immediately available funds to the Company's account
- Cashless Exercise pursuant to Section 1.2 of the Warrant
- Other [Describe]\_\_\_\_\_

2. Please issue a certificate or certificates representing the Shares in the name specified below:

\_\_\_\_\_  
Holder's Name  
\_\_\_\_\_  
\_\_\_\_\_  
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
(Date): \_\_\_\_\_

---

SCHEDULE 1

Company Capitalization Table

---

EXHIBIT A

FORM OF AMENDMENT TO INVESTOR RIGHTS AGREEMENT

Exhibit A

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO SUCH SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

**WARRANT TO PURCHASE STOCK**

Company: Sutro Biopharma, Inc., a Delaware corporation  
 Number of Shares: \_\_\_\_\_ (Subject to Section 1.7)  
 Type/Series of Stock: Series D-2 Preferred Stock (Subject to Section 1.7)  
 Warrant Price: \$ \_\_\_\_\_ per share (Subject to Section 1.7)  
 Issue Date: \_\_\_\_\_  
 Expiration Date: \_\_\_\_\_ See also Section 5.1(b).  
 Credit Facility: This Warrant to Purchase Stock (“**Warrant**”) is issued in connection with that certain Loan and Security Agreement of even date herewith among \_\_\_\_\_, as Lender and Collateral Agent, the Lenders from time to time party thereto, including \_\_\_\_\_, and the Company (as modified, amended and/or restated from time to time, the “**Loan Agreement**”).

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, \_\_\_\_\_ (“\_\_\_\_\_” and, together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, “**Holder**”) is entitled to purchase the number of fully paid and non-assessable shares (the “**Shares**”) of the above-stated Type/Series of Stock (the “**Class**”) of the above-named company (the “**Company**”) at the above-stated Warrant Price, all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

SECTION 1. EXERCISE.

1.1 Method of Exercise. Holder may at any time and from time to time exercise this Warrant, in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and, unless Holder is exercising this Warrant pursuant to a cashless exercise set forth in Section 1.2, a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Cashless Exercise. On any exercise of this Warrant, in lieu of payment of the aggregate Warrant Price in the manner as specified in Section 1.1 above, but otherwise in accordance with the requirements of Section 1.1, Holder may elect to receive Shares equal to the value of this Warrant, or portion hereof as to which this Warrant is being exercised. Thereupon, the Company shall issue to the Holder such number of fully paid and non-assessable Shares as are computed using the following formula:

$$X = Y(A-B)/A$$

where:

- X = the number of Shares to be issued to the Holder;
- Y = the number of Shares with respect to which this Warrant is being exercised (inclusive of the Shares surrendered to the Company in payment of the aggregate Warrant Price);
- A = the Fair Market Value (as determined pursuant to Section 1.3 below) of one Share; and
- B = the Warrant Price.

1.3 Fair Market Value. If the Company's common stock is then traded or quoted on a nationally recognized securities exchange, inter-dealer quotation system or over-the-counter market (a "**Trading Market**") and the Class is common stock, the fair market value of a Share shall be the closing price or last sale price of a share of common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company. If the Company's common stock is then traded in a Trading Market and the Class is a series of the Company's convertible preferred stock, the fair market value of a Share shall be the closing price or last sale price of a share of the Company's common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company multiplied by the number of shares of the Company's common stock into which a Share is then convertible. If the Company's common stock is not traded in a Trading Market, the Board of Directors of the Company shall determine the fair market value of a Share in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 or 1.2 above, the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation, the Company shall, within a reasonable time, execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

1.6 Treatment of Warrant Upon Acquisition of Company.

(a) Acquisition. For the purpose of this Warrant, "**Acquisition**" means (i) any consolidation, merger or acquisition in which the Company is a constituent party (but excluding any merger effected solely for the purpose of reincorporating into another state), or any other corporate reorganization (including, without limitation, any consolidation, merger or acquisition in which a subsidiary of the Company is a constituent party and the Company issues shares of its capital stock pursuant to such merger, consolidation or acquisition), in which, in each case, the stockholders of the Company immediately prior to such consolidation, merger, acquisition or reorganization, own less than 50% of the voting power of the surviving or successor entity or its parent immediately after such consolidation, merger, acquisition or reorganization; (ii) any transaction or series of related transactions to which the Company is a party in which in excess of fifty percent (50%) of the Company's voting power is transferred, excluding any consolidation or merger effected solely for the purpose of reincorporating into another state; or (iii) any sale, lease, transfer, exclusive license or other disposition by the Company or any subsidiary or subsidiaries of the Company of all or substantially all of the assets of the Company and its subsidiaries taken as a whole (or, if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by one or more subsidiaries, the sale or disposition (whether by consolidation, merger, conversion or otherwise) of such subsidiaries of the Company or all or substantially all of the assets of such subsidiaries), except where such sale, lease, transfer, exclusive license or other disposition is made to the Company or one or more wholly owned subsidiaries of the Company. Notwithstanding the foregoing, no transaction or series of related transactions principally for bona fide equity financing purposes in which cash is received by the Company or indebtedness of the Company is cancelled or converted, or a combination thereof, nor the transfer by any stockholder of shares of the Company's capital stock to any third party in a transaction or series of related transactions to which the Company is not a party, shall be an Acquisition for purposes of this Warrant.

(b) Treatment of Warrant at Acquisition. In the event of an Acquisition in which the consideration to be received by the Company's stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a "**Cash/Public Acquisition**"), either (i) Holder shall exercise this Warrant pursuant to Section 1.1 and/or 1.2 and such exercise will be deemed effective immediately prior to and contingent upon the consummation of such Acquisition or (ii) if Holder elects not to exercise the Warrant, this Warrant will expire immediately prior to the consummation of such Acquisition.



(c) The Company shall provide Holder with written notice of its request relating to the Cash/Public Acquisition (together with such reasonable information as Holder may reasonably require regarding the treatment of this Warrant in connection with such contemplated Cash/Public Acquisition giving rise to such notice), which is to be delivered to Holder not less than seven (7) Business Days prior to the closing of the proposed Cash/Public Acquisition. In the event the Company does not provide such notice, then if, immediately prior to the Cash/Public Acquisition, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above would be greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall promptly notify the Holder of the number of Shares (or such other securities) issued upon such exercise to the Holder and Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as the date thereof.

(d) Upon the closing of any Acquisition other than a Cash/Public Acquisition defined above, the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and/or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(e) As used in this Warrant, "**Marketable Securities**" means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in a Trading Market, and (iii) following the closing of such Acquisition, Holder would not be restricted from publicly re-selling all of the issuer's shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise or convert this Warrant in full on or prior to the closing of such Acquisition, except to the extent that any such restriction (x) arises solely under federal or state securities laws, rules or regulations, and (y) does not extend beyond six (6) months from the closing of such Acquisition.

1.7 Adjustment to Class of Shares; Number of Shares; Warrant Price; Adjustments Cumulative. If, upon the closing of the Next Equity Financing, the Next Equity Financing Price shall be less than the Warrant Price in effect as of immediately prior thereto, then the "Class" shall be Next Equity Financing Securities from and after such closing, subject to adjustment thereafter from time to time in accordance with the provisions of this Warrant and the "Warrant Price" shall be the Next Equity Financing Price from and after such closing, subject to adjustment thereafter from time to time in accordance with the provisions of this Warrant; provided, that upon such date, if any, as the "Class" becomes Next Equity Financing Securities pursuant to this sentence, this Warrant shall be exercisable for such number of shares of such Class as shall equal (i) \_\_\_\_\_ (\$ \_\_\_\_\_), divided by (ii) the Next Equity Financing Price, subject to adjustment thereafter from time to time in accordance with the provisions of this Warrant. As used herein (i) "Next Equity Financing" means the first sale or issuance by the Company on or after the Issue Date of this Warrant set forth above, in a single transaction or series of related transactions, of shares of its convertible preferred stock or other senior equity securities to one or more investors for cash for financing purposes; (ii) "Next Equity Financing Securities" means the type, class and series of convertible preferred stock or other senior equity security sold or issued by the Company in the Next Equity Financing; and (iii) "Next Equity Financing Price" means the lowest price per share for which Next Equity Financing Securities are sold or issued by the Company in the Next Equity Financing (not including any price per share applied in connection with the conversion of debt in such Next Equity Financing).

## SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in common stock or other securities or property (other than cash), then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder,

the total number and kind of securities and property which Holder would have received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations, substitutions, replacements or other similar events.

2.3 Conversion of Preferred Stock. If the Class is a class and series of the Company's convertible preferred stock, in the event that all outstanding shares of the Class are converted, automatically or by action of the holders thereof, into common stock pursuant to the provisions of the Company's Certificate of Incorporation, including, without limitation, in connection with the Company's initial, underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Act (the "IPO"), then from and after the date on which all outstanding shares of the Class have been so converted, this Warrant shall be exercisable for such number of shares of common stock into which the Shares would have been converted had the Shares been outstanding on the date of such conversion, and the Warrant Price shall equal the Warrant Price in effect as of immediately prior to such conversion divided by the number of shares of common stock into which one Share would have been converted, all subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant.

2.4 Adjustments for Diluting Issuances. Without duplication of any adjustment otherwise provided for in this Section 2, the number of shares of common stock issuable upon conversion of the Shares shall be subject to anti-dilution adjustment from time to time in the manner set forth in the Company's Articles or Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment.

2.5 No Fractional Share. No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by (i) the fair market value (as determined in accordance with Section 1.3 above) of a full Share, less (ii) the then-effective Warrant Price.

2.6 Notice/Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

### SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than the price per share at which shares of the Class were last sold and issued prior to the Issue Date hereof in an arms-length transaction in which at least \$\_\_\_\_\_ of such shares were sold.

(b) All Shares which may be issued upon the exercise of this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws. The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class, common stock and other securities as will be sufficient to permit the exercise in full of this Warrant and the conversion of the Shares into common stock or such other securities.

(c) The Company's capitalization table attached hereto as Schedule 1 is true and complete, in all material respects, as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class or common stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company's stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class;

(d) effect an Acquisition or to liquidate, dissolve or wind up; or

(e) effect an IPO;

then, in connection with each such event, the Company shall give Holder:

(1) at least seven (7) Business Days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of outstanding shares of the Class will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (a) and (b) above;

(2) in the case of the matters referred to in (c) and (d) above, at least seven (7) Business Days prior written notice of the date when the same will take place (and specifying the date on which the holders of outstanding shares of the Class will be entitled to exchange their shares for the securities or other property deliverable upon the occurrence of such event); and

(3) with respect to the IPO, at least seven (7) Business Days prior written notice of the date on which the Company proposes to file its registration statement in connection therewith.

Reference is made to Section 1.6(c) whereby this Warrant will be deemed to be exercised pursuant to Section 1.2 hereof if the Company does not give written notice to Holder of a Cash/Public Acquisition as required by the terms hereof. Company will also provide information requested by Holder that is reasonably necessary to enable Holder to comply with Holder's accounting or reporting requirements.

#### SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE HOLDER.

The Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless an exemption from such registration and qualification is otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

4.6 Market Stand-off Agreement. The Holder agrees that the Shares shall be subject to the Lock-up Agreement provisions in Section 11 of the Second Amended and Restated Investors' Rights Agreement dated as of \_\_\_\_\_ by and among the Company and certain stockholders of the Company.

4.7 No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the exercise of this Warrant.

#### SECTION 5. MISCELLANEOUS.

##### 5.1 Term: Automatic Cashless Exercise Upon Expiration.

(a) Term. Subject to the provisions of Section 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Eastern time, on the Expiration Date and shall be void thereafter.

(b) Automatic Cashless Exercise upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall, within a reasonable time, deliver a certificate representing the Shares (or such other securities) issued upon such exercise to Holder.

5.2 Legends. Each certificate evidencing Shares (and each certificate evidencing the securities issued upon conversion of any Shares, if any) shall be imprinted with a legend in substantially the following form:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO \_\_\_\_\_ DATED \_\_\_\_\_, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SHARES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE ISSUER, THAT SUCH REGISTRATION IS NOT REQUIRED.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issued upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to an affiliate of Holder, provided that any such transferee is an "accredited investor" as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of Rule 144 promulgated under the Act.

5.4 Transfer Procedure. After receipt by \_\_\_\_\_ of the executed Warrant, \_\_\_\_\_ may transfer all or part of this Warrant to one or more of \_\_\_\_\_'s affiliates (each, an "\_\_\_\_\_Affiliate"), by execution of an Assignment substantially in the form of Appendix 2. Subject to the provisions of Article 5.3 and upon providing the Company with written notice, \_\_\_\_\_, any such \_\_\_\_\_ Affiliate and any subsequent Holder, may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the Shares issuable directly or indirectly, upon conversion of the Shares, if any) to any other transferee, provided, however, in connection with any such transfer, the \_\_\_\_\_ Affiliate(s) or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable). Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company's prior written consent, transfer this Warrant or any portion hereof, or any Shares issued upon any exercise hereof, or any shares or other securities issued upon any conversion of any Shares issued upon any exercise hereof, to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

5.5 Notices. All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3rd) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section 5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email: \_\_\_\_\_

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

Sutro Biopharma, Inc.  
310 Utah Street, Suite 150  
South San Francisco, CA 94080  
Attn: Edward Albini  
Email:

With a copy (which shall not constitute notice) to:

Fenwick & West LLP  
555 California Street  
12th Floor  
San Francisco, CA 94104  
Attn: Matthew S. Rossiter  
Telephone:  
Facsimile:  
Email:

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys' Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Counterparts: Facsimile/Electronic Signatures. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

5.9 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

5.10 Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

5.11 Business Days. "**Business Day**" is any day that is not a Saturday, Sunday or a day on which \_\_\_\_\_ is closed.

[Remainder of page left blank intentionally]

[Signature page follows]

---

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives effective as of the Issue Date written above.

“COMPANY”

SUTRO BIOPHARMA, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_  
(Print)

Title: \_\_\_\_\_

“HOLDER”

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_  
(Print)

Title: \_\_\_\_\_

*[Signature Page to Warrant to Purchase Stock]*

APPENDIX 1  
NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right to purchase \_\_\_\_\_ shares of the Common/Series \_\_\_\_\_ Preferred [circle one] Stock of Sutro Biopharma, Inc. (the “**Company**”) in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

- check in the amount of \$\_\_\_\_\_ payable to the order of the Company enclosed herewith
- Wire transfer of immediately available funds to the Company’s account
- Cashless Exercise pursuant to Section 1.2 of the Warrant
- Other [Describe] \_\_\_\_\_

2. Please issue a certificate or certificates representing the Shares in the name specified below:

\_\_\_\_\_  
Holder’s Name

\_\_\_\_\_  
\_\_\_\_\_

(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



**APPENDIX 2**  
**ASSIGNMENT**

For value received, \_\_\_\_\_ hereby sells, assigns and transfers unto

Name: [\_\_\_\_\_ TRANSFEREE]

Address: \_\_\_\_\_

Tax ID: \_\_\_\_\_]

that certain Warrant to Purchase Stock issued by Sutro Biopharma, Inc. (the "Company"), on \_\_\_\_\_ (the "Warrant") together with all rights, title and interest therein.

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

By its execution below, and for the benefit of the Company, [\_\_\_\_\_ TRANSFEREE] makes each of the representations and warranties set forth in Article 4 of the Warrant and agrees to all other provisions of the Warrant as of the date hereof.

[\_\_\_\_\_ TRANSFEREE]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_]

---

SCHEDULE 1

Company Capitalization Table

See attached

Schedule 1

## SUTRO BIOPHARMA, INC.

## 2004 STOCK PLAN

(as amended May 17, 2018)

1. Purposes of the Plan. The purposes of this Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 3d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities, except that any change in the beneficial ownership of the securities of the Company as a result of a private financing of the Company that is approved by the Board, shall not be deemed to be a Change in Control; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or

(iii) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(e) “Code” means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(f) “Committee” means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(g) “Common Stock” means the Common Stock of the Company.

(h) “Company” means Sutro Biopharma, Inc., a Delaware corporation.

(i) “Consultant” means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(j) “Director” means a member of the Board.

(k) “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code.

(l) “Employee” means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director’s fee by the Company shall be sufficient to constitute “employment” by the Company.

(m) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(n) “Exchange Program” means a program under which (a) outstanding Options are surrendered or cancelled in exchange for Options of the same type (which may have lower exercise prices and different terms), Options of a different type, and/or cash, and/or (b) the exercise price of an outstanding Option is reduced. The terms and conditions of any Exchange Program will be determined by the Administrator in its sole discretion.

(o) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

- 
- (p) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.
- (q) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.
- (r) "Option" means a stock option granted pursuant to the Plan.
- (s) "Option Agreement" means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.
- (t) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.
- (u) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.
- (v) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (w) "Plan" means this 2004 Stock Plan.
- (x) "Restricted Stock" means Shares issued pursuant to a Stock Purchase Right or Shares of restricted stock issued pursuant to an Option.
- (y) "Restricted Stock Purchase Agreement" means a written or electronic agreement between the Company and the Optionee evidencing the terms and restrictions applying to Shares purchased under a Stock Purchase Right. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the notice of grant.
- (z) "Securities Act" means the Securities Act of 1933, as amended.
- (aa) "Service Provider" means an Employee, Director or Consultant.
- (bb) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 below.
- (cc) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.
- (dd) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be subject to Options or Stock Purchase Rights and sold under the Plan is 105,854,931 Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Exchange Program, the unpurchased Shares that were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if unvested Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

#### 4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each such award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to institute an Exchange Program;

(vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(viii) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Optionees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

---

(ix) to construe and interpret the terms of the Plan and Options granted pursuant to the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) Incentive Stock Option Limit. Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) At-Will Employment. Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause, and with or without notice.

7. Term of Plan. Subject to stockholder approval in accordance with Section 19, the Plan shall become effective upon its adoption by the Board. Unless sooner terminated under Section 15, it shall continue in effect for a term of ten (10) years from the later of (i) the effective date of the Plan, or (ii) the earlier of the most recent Board or stockholder approval of an increase in the number of Shares reserved for issuance under the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a Service Provider who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Service Provider, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required above in accordance with and pursuant to a transaction described in Section 424 of the Code.

(b) Forms of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of, without limitation, (1) cash, (2) check, (3) promissory note, (4) other Shares, provided Shares acquired directly from the Company (x) have been owned by the Optionee, and not subject to a substantial risk of forfeiture, for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.



---

10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. An Option may not be exercised for a fraction of a Share. Except in the case of Options granted to officers, Directors and Consultants, Options shall become exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted.

An Option shall be deemed exercised when the Company receives (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within thirty (30) days of termination, or such longer period of time as specified in the Option Agreement, to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). Unless the Administrator provides otherwise, if on the date of termination the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within six (6) months of termination, or such longer period of time as specified in the Option Agreement, to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). Unless the Administrator provides otherwise, if on the date of termination the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within six (6) months following Optionee's death, or such longer period of time as specified in the Option Agreement, to the extent that the Option is vested on the date of death (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement) by the Optionee's designated beneficiary, provided such beneficiary has been designated prior to Optionee's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Optionee, then such Option may be exercised by the personal representative of the Optionee's estate or by the person(s) to whom the Option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Leaves of Absence.

(i) Unless the Administrator provides otherwise, vesting of Options granted hereunder to officers and Directors shall be suspended during any unpaid leave of absence.

(ii) A Service Provider shall not cease to be an Employee in the case of (A) any leave of absence approved by the Company or (B) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor.

(iii) For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave, any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The terms of the offer shall comply in all respects with Section 260.140.42 of Title 10 of the California Code of Regulations. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable within 90 days of the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or disability). Unless the Administrator provides otherwise, the purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any

indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine. Except with respect to Shares purchased by officers, Directors and Consultants, the repurchase option shall in no case lapse at a rate of less than 20% per year over five (5) years from the date of purchase.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Stockholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a stockholder and shall be a stockholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 13 of the Plan.

12. Limited Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the Optionee, only by the Optionee. If the Administrator in its sole discretion makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right may only be transferred (i) by will, (ii) by the laws of descent and distribution, or (iii) to family members (within the meaning of Rule 701 of the Securities Act) through gifts or domestic relations orders, as permitted by Rule 701 of the Securities Act.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, may (in its sole discretion) adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Option or Stock Purchase Right; provided, however, that the Administrator shall make such adjustments to the extent required by Section 25102(o) of the California Corporations Code.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Change in Control. In the event of a merger of the Company with or into another corporation, or a Change in Control, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option substituted by the successor corporation or a Parent

or Subsidiary of the successor corporation. In the event that the successor corporation in a merger or Change in Control refuses to assume or substitute for the Option or Stock Purchase Right, then the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or Change in Control, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully exercisable for a period of time as determined by the Administrator, and the Option or Stock Purchase Right shall terminate upon expiration of such period. For the purposes of this paragraph and for the sake of clarity, a "successor corporation" shall be deemed to include any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) that becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities as a result of a Change in Control of the type described in Section 2(d)(i) hereof.

14. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such later date as is determined by the Administrator. Notice of the determination shall be given to each Service Provider to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

15. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Board shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

16. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option or Stock Purchase Right, the Administrator may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

---

17. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

19. Stockholder Approval. The Plan shall be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws.

20. Information to Optionees. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

---

**EXHIBIT B**

**Form of Stock Option Agreement (as Amended)**

**SUTRO BIOPHARMA, INC.**  
**2004 STOCK PLAN**  
**STOCK OPTION AGREEMENT**

Unless otherwise defined herein, the terms defined in the 2004 Stock Plan shall have the same defined meanings in this Stock Option Agreement.

**I. NOTICE OF STOCK OPTION GRANT**

**Name:** \_\_\_\_\_

**Address:** \_\_\_\_\_

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Date of Grant \_\_\_\_\_

Vesting Commencement Date \_\_\_\_\_

Exercise Price per Share \$ \_\_\_\_\_

Total Number of Shares Granted \_\_\_\_\_

Total Exercise Price \$ \_\_\_\_\_

Type of Option: \_\_\_\_\_ Incentive Stock Option

\_\_\_\_\_ Nonstatutory Stock Option

Term/Expiration Date: \_\_\_\_\_

Vesting Schedule:

This Option shall be exercisable, in whole or in part, according to the following vesting schedule:

[25% of the Shares subject to the Option shall vest on the one year anniversary of the Vesting Commencement Date, and 1/48<sup>h</sup> of the Shares subject to the Option shall vest each month thereafter on the same day of the month as the Vesting Commencement Date, subject to Optionee continuing to be a Service Provider through each such date.]

Termination Period:

This Option shall be exercisable for three (3) months after Optionee ceases to be a Service Provider. Upon Optionee's death or Disability, this Option may be exercised for one (1) year after Optionee ceases to be a Service Provider. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

Code Section 409A:

Under Code Section 409A, an option that vests after December 31, 2004 that was granted with a per share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the fair market value of a Share of Common Stock on the date of grant (a "discount option") is considered "deferred compensation". An option that is a "discount option" may result in (i) income recognition by the Optionee prior to the exercise of the option (when the option vests), (ii) an additional twenty percent (20%) income tax, and (iii) potential interest charges. Optionee acknowledges that the Company cannot guarantee and has not guaranteed that the IRS will determine that the per share exercise price of this Option equals or exceeds the fair market value of a Share of Common Stock on the date of grant. Optionee agrees that if the IRS determines that the Option was granted with a per share exercise price that was less than the fair market value of a Share of Common Stock on the date of grant, Optionee will be solely responsible for any costs related to such a determination.

**II. AGREEMENT**

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 15(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

(a) Right to Exercise. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement.

(b) Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as Exhibit A (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.



No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B.

4. Lock-Up Period. Optionee hereby agrees that Optionee shall not offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Stock (or other securities) of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Common Stock (or other securities) of the Company held by Optionee (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of any registration statement of the Company filed under the Securities Act.

Optionee agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, Optionee shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. Optionee agrees that any transferee of the Option or shares acquired pursuant to the Option shall be bound by this Section.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash or check;

(b) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(c) surrender of other Shares which, (i) in the case of Shares acquired from the Company, either directly or indirectly, have been owned by the Optionee, and not subject to a substantial risk of forfeiture, for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

6. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Law.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

9. Tax Obligations.

(a) Withholding Taxes. Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, local and foreign income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

10. Adoption Agreement. Upon execution of this Option Agreement and as a condition to receiving the Option, Optionee shall have executed and delivered to the Company the Adoption Agreement in the form attached hereto as Exhibit C (the "Adoption Agreement"), pursuant to which Optionee shall be bound by all provisions of the Agreement (as defined in the Adoption Agreement) in the capacity of Common Holder and/or Stockholder (each as defined in the Adoption Agreement), as applicable.

11. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

12. No Guarantee of Continued Service. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE

SUTRO BIOPHARMA, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Residence Address

**EXHIBIT A**  
**2004 STOCK PLAN**  
**EXERCISE NOTICE**

Sutro Biopharma, Inc.  
Address: \_\_\_\_\_

Attention: \_\_\_\_\_

1. Exercise of Option. Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned (“Optionee”) hereby elects to exercise Optionee’s option to purchase \_\_\_\_\_ shares of the Common Stock (the “Shares”) of Sutro Biopharma, Inc. (the “Company”) under and pursuant to the 2004 Stock Plan (the “Plan”) and the Stock Option Agreement dated \_\_\_\_\_, \_\_\_\_\_ (the “Option Agreement”).

2. Delivery of Payment. Optionee herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 13 of the Plan.

5. Company’s Right of First Refusal. Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the “Holder”) may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the “Right of First Refusal”).

(a) Notice of Proposed Transfer. The Holder of the Shares shall deliver to the Company a written notice (the “Notice”) stating: (i) the Holder’s bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee (“Proposed Transferee”); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the “Offered Price”), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) Purchase Price. The purchase price ("Purchase Price") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within thirty (30) days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "Immediate Family" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) the first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

6. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

---

7. Restrictive Legends and Stop-Transfer Orders

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND A RIGHT OF FIRST REFUSAL HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER FOR A PERIOD NOT TO EXCEED 180 DAYS FOLLOWING THE EFFECTIVE DATE OF THE UNDERWRITTEN PUBLIC OFFERING OF THE COMPANY'S SECURITIES AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF BY THE HOLDER WITHOUT THE CONSENT OF THE COMPANY OR THE MANAGING UNDERWRITER.

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law; Severability. This Exercise Notice is governed by the internal substantive laws but not the choice of law rules, of California. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Exercise Notice will continue in full force and effect.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:

OPTIONEE

Accepted by:

SUTRO BIOPHARMA, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Address:

\_\_\_\_\_  
Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Date Received

**EXHIBIT B**

**INVESTMENT REPRESENTATION STATEMENT**

OPTIONEE: \_\_\_\_\_  
COMPANY: SUTRO BIOPHARMA, INC.  
SECURITY: COMMON STOCK  
AMOUNT: \_\_\_\_\_  
DATE: \_\_\_\_\_

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

(b) Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to Optionee, the exercise shall be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such



longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of the applicable conditions specified by Rule 144, including in the case of affiliates (1) the availability of certain public information about the Company, (2) the amount of Securities being sold during any three (3) month period not exceeding specified limitations, (3) the resale being made in an unsolicited "broker's transaction", transactions directly with a "market maker" or "riskless principal transactions" (as those terms are defined under the Securities Exchange Act of 1934) and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which may require (i) the availability of current public information about the Company; (ii) the resale to occur more than a specified period after the purchase and full payment (within the meaning of Rule 144) for the Securities; and (iii) in the case of the sale of Securities by an affiliate, the satisfaction of the conditions set forth in sections (2), (3) and (4) of the paragraph immediately above.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

\_\_\_\_\_

Date: \_\_\_\_\_.

**EXHIBIT C**  
**ADOPTION AGREEMENT**

This Adoption Agreement (“Adoption Agreement”) is executed on \_\_\_\_\_, 20\_\_\_, by the undersigned (the “Holder”) pursuant to the terms of that certain Second Amended and Restated Voting Agreement dated as of September 26, 2014, as amended (the “Agreement”), by and among the Company and certain of its Stockholders, as such Agreement may be amended or amended and restated hereafter. Capitalized terms used but not defined in this Adoption Agreement shall have the respective meanings ascribed to such terms in the Agreement. By the execution of this Adoption Agreement, the Holder agrees as follows.

1. **Acknowledgement.** Holder acknowledges that Holder is acquiring certain shares of the capital stock of the Company (the “Stock”) or options, warrants or other rights to purchase such Stock (the “Options”), for one of the following reasons (Check the correct box):

- as a transferee of Shares from a party in such party’s capacity as an “Investor” bound by the Agreement, and after such transfer, Holder shall be considered an “Investor” and a “Stockholder” for all purposes of the Agreement.
- as a transferee of Shares from a party in such party’s capacity as a “Common Holder” bound by the Agreement, and after such transfer, Holder shall be considered a “Common Holder” and a “Stockholder” for all purposes of the Agreement.
- as a new Investor in accordance with Section 7.1(a) of the Agreement, in which case Holder will be an “Investor” and a “Stockholder” for all purposes of the Agreement.
- in accordance with Section 7.1(b) of the Agreement, as a new party who is not a new Investor, in which case Holder will be a “Stockholder” for all purposes of the Agreement.

2. **Agreement.** Holder hereby (a) agrees that the Options, and any other shares of capital stock or securities required by the Agreement to be bound thereby, shall be bound by and subject to the terms of the Agreement and (b) adopts the Agreement with the same force and effect as if Holder were originally a party thereto.

3. **Notice.** Any notice required or permitted by the Agreement shall be given to Holder at the address or facsimile number listed below Holder’s signature hereto.

[Signature Page Follows]

---

**HOLDER:** \_\_\_\_\_

ACCEPTED AND AGREED:

By: \_\_\_\_\_  
Name and Title of Signatory

**SUTRO BIOPHARMA, INC.**

Address: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Facsimile Number: \_\_\_\_\_

[Signature Page to Adoption Agreement]

SUTRO BIOPHARMA, INC.  
2017 CALL OPTION PLAN

---

SUTRO BIOPHARMA, INC.  
2017 CALL OPTION PLAN

**1. Definitions.** As used herein, the following definitions shall apply:

- (a) “Administrator” means the Board or his, her or its successor, as appointed by the Board.
- (b) “Board” means the Board of Directors of Sutro Biopharma.
- (c) “Call Option” means a right to Subject Shares, subject to vesting and granted pursuant to the Plan as described in Section 5 hereof.
- (d) “Cause” means Termination because of (a) Participant’s unauthorized misuse of Sutro Biopharma’s trade secrets or proprietary information, (b) Participant’s conviction of or plea of nolo contendere to a felony or a crime involving moral turpitude, (c) Participant’s committing an act of fraud against Sutro Biopharma or (d) Participant’s gross negligence or willful misconduct in the performance of his or her duties that has had or will have a material adverse effect on the Sutro Biopharma’s reputation or business.
- (e) “Code” means the Internal Revenue Code of 1986, as amended, or any successor statute or statutes thereto, including any regulations and other guidance promulgated under any such statute.
- (f) “Consultant” means a member of the Board or any consultant or advisor if the consultant or adviser renders bona fide services to Sutro Biopharma.
- (g) “Disability” means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.
- (h) “Employee” means any person who is an employee (as defined under applicable law) of Sutro Biopharma.
- (i) “Exercise Price” means the exercise price per share of a Call Option as determined by the Administrator, which in no case shall be less than 50% of the Fair Market Value of the SV Stock as determined by the Administrator, and documented in the corresponding Notice.
- (j) “Fair Market Value” means the fair market value per share of SV Stock, as determined by the Administrator.
- (k) “Notice” means the Notice of Call Option Grant which, together with this Plan, shall constitute a written agreement among Participant and Sutro Biopharma, evidencing the terms and conditions of the grant of a Call Option.
- (l) “Participant” means an Employee or Consultant of Sutro Biopharma who is granted and continues to hold a Call Option.

---

(m) “Plan” means this Sutro Biopharma 2017 Call Option Plan.

(n) “SB Change in Control” means a change in ownership, change in effective control, or a change in the ownership of a substantial portion of the assets of Sutro Biopharma as described in Treasury Regulation Section 1.409A-3(i)(5)(v), 1.409A-3(i)(5)(vi) and 1.409A-3(i)(5)(vii).

(o) “Subject Shares” means the shares of SV Stock issuable under this Plan or otherwise underlying Call Options.

(p) “Sutro Biopharma” means Sutro Biopharma, Inc., a Delaware Corporation and minority owner of SutroVax.

(q) “SutroVax” means SutroVax, Inc., a Delaware corporation partly-owned by Sutro Biopharma.

(r) “SV Change in Control” means a change in ownership, change in effective control, or a change in the ownership of a substantial portion of the assets of SutroVax as described in Treasury Regulation Section 1.409A-3(i)(5)(v), 1.409A-3(i)(5)(vi) and 1.409A-3(i)(5)(vii), but in all cases without regard as to whether SutroVax is a “relevant corporation” under 1.409A-3(i)(5)(ii).

(s) “SV Stock” means the common stock of SutroVax, \$0.001 par value per share.

(t) “Termination” means, for purposes of this Plan with respect to a Participant, that the Participant has for any reason ceased to provide services as an Employee or Consultant to Sutro Biopharma (ceased “Continuous Service Status”). A Participant will not be deemed to have ceased Continuous Service Status while the Participant is on a bona fide leave of absence, if such leave was approved by the Sutro Biopharma in writing. In the case of an approved leave of absence, the Administrator may make such provisions respecting crediting of service, including suspension of vesting of the Call Option (including pursuant to a formal policy adopted from time to time by Sutro Biopharma) it may deem appropriate, except (i) as required by applicable law and (ii) in no event may a Call Option be exercised after the expiration of the term set forth in Section 5(c)(i) hereof. The Administrator will have sole discretion to determine whether a Participant has ceased Continuous Service Status and the effective date on which the Participant ceased Continuous Service Status (the “Termination Date”).

**2. Stock Subject to the Plan.** Sutro Biopharma has reserved 450,000 Subject Shares, subject to the terms and conditions of this Plan and the prior consent of the Board. The Subject Shares shall underlie the Call Options awarded to Participants pursuant to the Plan and shall be held for distribution to Participants pursuant to the exercise of the Call Options in accordance with the terms of this Plan. Any unissued Subject Shares shall be retained by Sutro Biopharma. Subject to Section 6 hereof, Subject Shares that are cancelled, forfeited, settled in cash, used to pay withholding obligations or pay the exercise price of a Call Option or that expire by their terms at any time will again be available for grant and issuance in connection with other Call Options. In the event that Subject Shares previously issued under the Plan are reacquired by Sutro Biopharma pursuant to a forfeiture provision, right of first refusal, or repurchase by Sutro Biopharma, such Subject Shares shall be added to the number of Subject Shares then available for issuance under the Plan.

---

**3. Administration of the Plan.**

(a) **Administrator.** The Board shall have the right to appoint or replace the Administrator of the Plan. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Participants.

(b) **Powers of the Administrator.** Subject to the provisions of the Plan, the Administrator shall have the broadest authority permitted under applicable laws in his, her or its sole discretion, to administer the Plan including but not limited to the following:

(i) to determine the Fair Market Value for purposes of determining the applicable amount of tax on the Call Options (if any) or Subject Shares distributed pursuant to the exercise of the Call Options;

(ii) to select the Employees and/or Consultants to whom Call Options may be granted hereunder;

(iii) to determine the number of Subject Shares to be covered by each Call Option granted hereunder and the vesting schedules thereof;

(iv) to approve forms of Notice for use under the Plan;

(v) to determine the terms and conditions of any Call Option granted hereunder, including its Exercise Price;

(vi) to prescribe, amend and rescind rules and regulations relating to the Plan;

(vii) to make arrangements with Participants to satisfy withholding tax obligations under such conditions as the Administrator may deem necessary or advisable;

(viii) to amend the Plan or Call Options granted under the Plan as provided in part by Section 7 hereof;

(ix) to provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom including approving supplements or amendments to the Plan; and

(x) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan and to exercise such powers and perform such acts as the Administrator deems necessary or desirable.

**4. Limitations.** Call Options shall not confer upon a Participant any right with respect to continuing the Participant's employment, directorship or consulting relationship with Sutro Biopharma, nor shall they interfere in any way with the Participant's right or the right of Sutro Biopharma to terminate such employment, directorship or consulting relationship at any time, with or without cause.

---

**5. Call Options.**

**(a) Grant of Call Options.**

**(i)** Call Options may be granted to Employees and/or Consultants.

**(ii)** The Administrator may select in his, her or its discretion, the Employees and/or Consultants to whom Call Options may be granted hereunder. Employees and/or Consultants receiving grants of Call Options shall be provided a Notice evidencing his or her Call Option.

**(iii)** A Participant receiving a Call Option under a Notice shall be entitled to receive the number of Subject Shares underlying the Call Option set forth in the Notice, subject to the terms and conditions of the Notice and the Plan.

**(b) Vesting of Call Options.** The Administrator shall determine the vesting schedule of each Call Option, which shall be specified in the corresponding Notice.

**(c) Exercise and Distribution of Call Options.**

**(i) Exercise of Call Options.** Notwithstanding anything to the contrary in this Plan, each Call Option shall be exercisable as to its then-vested portion until the earliest of (a) the end of the calendar year in which such vested portion vests, (b) such earlier time as required by Section 5(c)(iii) hereof or (c) the end of a period of such calendar year designated for exercise of Call Options as determined by the Administrator and specified in the Notice (the "***Exercise Window***"). In all cases, the vested portion of a Call Option shall cease to be exercisable at 5:00 pm (Pacific Standard Time) on December 31 of the calendar year in which such portion vests, or if December 31 is not a business day, on the last business day immediately prior to December 31. If any vested portion of a Call Option is not timely exercised by the Participant, that unexercised portion of the Call Option shall expire and be forfeited without consideration. A Participant exercising a Call Option shall do so pursuant to the form of Call Option Exercise Notice and Agreement attached hereto as **Exhibit A**.

**(1)** In the case of expiration and forfeiture of a portion of a Call Option, subsequent vesting and exercisability of the remaining portions of such Call Option shall not be affected, provided that the Participant is in Continuous Service Status on the subsequent vesting dates in accordance the Call Option vesting schedule as specified in the Notice.

**(ii) Payment for Exercises.** Payment for Subject Shares acquired pursuant to this Plan may be made in cash (by check), wire transfer or where expressly approved for the Participant by the Administrator and where permitted by law:

**(1)** by cancellation of indebtedness of Sutro Biopharma owed to the Participant;

**(2)** by tender of a full recourse promissory note having such terms as may be approved by the Administrator and bearing interest at a rate sufficient to avoid imputation of income under Sections 483 and 1274 of the Code; *provided, however*, that Participants who are not Employees or Consultants will not be entitled to purchase Subject Shares with a promissory note unless the note is adequately secured by collateral other than the Subject Shares;



(3) by waiver of compensation due or accrued to the Participant from Sutro Biopharma for services rendered;

(4) by participating in a net exercise program implemented by the Administrator in connection with the Plan;

(5) by any combination of the foregoing or any other method of payment approved by the Administrator.

(iii) Termination. Subject to earlier termination pursuant to Sections 5(c)(i) and 7 hereof, exercise of a Call Option will always be subject to the following terms and conditions.

(1) Other than Death or Disability or for Cause. If the Participant ceases Continuous Service Status for any reason other than death, Disability or for Cause, then the Participant may exercise such Participant's Call Options only to the extent that such Call Options have vested upon the Termination Date or as otherwise determined by the Administrator. Such Call Options must be exercised by the Participant, if at all, as to all or some of the their vested portions calculated as of the Termination Date or such other date determined by the Administrator, within three (3) months after the Termination Date (or within such shorter time period, not less than thirty (30) days, or within such longer time period after the Termination Date as may be determined by the Administrator), but in any event no later than the expiration date of the Call Options as per Sections 5(c)(i)(a) and 5(c)(i)(c) hereof.

(2) Death or Disability. If the Participant ceases Continuous Service Status because of Participant's death or Disability (or the Participant dies within three (3) months after a Termination other than for Cause), then Participant's Call Options may be exercised only to the extent that such Call Options have vested by Participant on the Termination Date or as otherwise determined by the Administrator. Such Call Options must be exercised by Participant (or Participant's legal representative or authorized assignee), if at all, as to all or some of their vested portions calculated as of the Termination Date or such other date determined by the Administrator, within six (6) months after the Termination Date, but in any event no later than the expiration date of the Call Options as per Sections 5(c)(i)(a) and 5(c)(i)(c) hereof.

(3) For Cause. If the Participant ceases Continuous Service Status due to termination for Cause, the Participant may exercise such Participant's Call Options, but not to an extent greater than such Call Options have vested upon the Termination Date and Participant's Call Options shall expire on such Participant's Termination Date, or at such later time and on such conditions as are determined by the Administrator, but in any event no later than the expiration date of the Call Options as per Sections 5(c)(i)(a) and 5(c)(i)(c) hereof.

(iv) No Fractional Rights. No fractional Subject Shares or rights for fractional shares shall be issued under the Plan.

(d) Acceleration of vesting of Call Options. Notwithstanding Section 5(b) above, upon either a SB Change in Control or an SV Change in Control, 100% of each Call Option shall accelerate, and shall become exercisable as to the entirety of the Call Option, only on such terms and conditions as the Administrator and Sutro Biopharma may require each in its sole discretion. The exercisability of Call Options accelerated pursuant to this Section shall expire upon the closing of the SB Change in Control or SV Change in Control, as applicable, or such earlier time as may be determined by the Administrator upon written notice to the Participant.

**6. Adjustments upon Changes in Capitalization.** In the event that any dividend or other distribution (whether in the form of cash, SV Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of SutroVax, or exchange or other disposition of SV Stock or other securities of SutroVax, issuance of warrants or other rights to purchase SV Stock or other securities of SutroVax, or other similar corporate transaction without consideration, the Administrator shall make adjustments to any Call Option to the extent required by applicable law or may make adjustments as the Administrator otherwise determines, including without limitation, adjustment to any or all of (i) the number and kind of Subject Shares (or other securities or property) with respect to which Call Options may be granted or awarded and (ii) the number and kind of Subject Shares (or other securities or property) subject to outstanding Call Options.

**7. Amendment and Termination of the Plan.** The Administrator may at any time wholly or partially amend, alter, suspend or terminate the Plan. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Call Options granted or awarded under the Plan prior to the date of such termination. Unless earlier terminated as provided herein, this Plan will automatically terminate ten (10) years after the later of (i) the effective date of the Plan.

**8. Participant Agreements and Representations.**

(a) As a condition to the grant of a Call Option or delivery of Subject Shares pursuant to the exercise of a Call Option, Participant agrees that (i) Participant accepts the grant of the Call Option subject to all of the terms set forth in the Notice and the Plan which will supersede in their entirety all prior undertakings, understandings and agreements of Sutro Biopharma and Participant with respect to the subject matter hereof, (ii) the grant of the Call Option is made in lieu of and replaces in its entirety any promise, whether express or implied, or any agreement by Sutro Biopharma to grant Participant an interest in SutroVax, (iii) that SutroVax is an intended third party beneficiary of Section 11 hereof, (iv) notwithstanding anything to the contrary in this Plan or the Notice, the Administrator and Sutro Biopharma are not required to design, establish or administer the Plan in a manner which will result in a beneficial tax treatment to the Participant, (v) the Administrator and Sutro Biopharma shall not distribute the Subject Shares underlying a Call Option unless and until the Participant makes arrangements acceptable to the Administrator and Sutro Biopharma for the payment of applicable taxes related to the transactions under this Plan, and (vi) Participant has been advised to consult his or her own tax advisor regarding the tax consequences to him or her of the grant of the Call Option and is not relying on any statements or representations made by the Administrator or Sutro Biopharma or its employees or agents regarding the tax consequences to him or her of the grant of the Call Option or distribution of Subject Shares pursuant to the exercise of the Call Option.

(b) The Administrator or Sutro Biopharma may require a Participant, as a condition to the grant of a Call Option or distribution of Subject Shares pursuant to the exercise of a Call Option, to give such written representations as the Administrator or Sutro Biopharma may require.

---

**9. Code Section 409A.** The Call Options are intended to be exempt from Section 409A of the Code as short-term deferral payments under U.S. Treasury Regulation Section 1.409A-1(b)(4). To the extent that any provision of this Plan is ambiguous as to its exemption or compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder are exempt from Section 409A to the maximum permissible extent, and for any payments where such construction is not tenable, that those payments comply with Section 409A to the maximum permissible extent. Payments pursuant to this letter agreement (or referenced in this letter agreement) are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the regulations under Section 409A.

**10. Tax Withholding and Reporting.** By accepting a Call Option, a Participant agrees to the reporting of taxable income as taxable compensation and the withholding of income and employment taxes by Suro Biopharma, and to make arrangements, as necessary for the payment of such taxes, as required by applicable local, state and federal tax laws, and the foreign tax laws applicable to the Participant.

**11. Transfer Restrictions.** Except as permitted by the Administrator, Call Options granted under this Plan, and any interest therein, will not be transferable or assignable by Participant, other than by will or by the laws of descent and distribution or by instrument to an inter vivos or testamentary trust in which the Call Options are to be passed to beneficiaries upon the death of the trustor (settlor), or by gift to a "family member" as that term is defined in Rule 701 *et seq.* promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended, and may not be made subject to execution, attachment or similar process. For the avoidance of doubt, the prohibition against assignment and transfer applies to a Call Option and, prior to exercise, the shares to be issued on exercise of a Call Option, and pursuant to the foregoing sentence shall be understood to include, without limitation, a prohibition against any pledge, hypothecation, or other transfer, including any short position, any "put equivalent position" or any "call equivalent position" (in each case, as defined in Rule 16a-1 promulgated under the Securities Exchange Act of 1934, as amended). Unless a Call Option is transferred pursuant to the terms of this Section, during the lifetime of the Participant, a Call Option will be exercisable only by the Participant or the Participant's legal representative, and any elections with respect to a Call Option may be made only by the Participant or the Participant's legal representative. The terms of a Call Option shall be binding upon the executor, administrator, successors and assigns of the Participant who is a party thereto.

**12. Applicable Laws.** The validity and enforceability of this Plan shall be governed by and construed in accordance with the laws of the State of California without regard to otherwise governing principles of conflicts of law. Reference to any section of a foreign, federal or state regulation, statute or law herein shall include any successor section.

**13. Severability.** If any provision of this Plan shall be held to be illegal, invalid or unenforceable under any applicable law, then such contravention or invalidity shall not invalidate the entire Plan and the remainder of the provisions shall remain in full force and effect and in no way shall be affected, impaired or invalidated. Such defective provision shall be deemed to be modified to the extent necessary to render it legal, valid and enforceable, and if no such modification shall render it legal, valid and enforceable, then this Plan shall be construed as if not containing the provision held to be invalid.

---

**EXHIBIT A**

FORM OF CALL OPTION EXERCISE NOTICE AND AGREEMENT

**CALL OPTION EXERCISE NOTICE AND AGREEMENT**

SUTRO BIOPHARMA, INC.

2017 CALL OPTION PLAN

**\*NOTE:** You must sign this Notice on Page 3 before submitting it to Sutro Biopharma, Inc. (the "Company") AND you must also sign (a) the then-current signature pages to the SutroVax Co-Sale Agreement and SutroVax Voting Agreement (as those terms are defined in the Notice of Call Option Grant governing the Call Option) and (b) if applicable, (i) an executed Consent of Spouse in the form of Exhibit D to the SutroVax Co-Sale Agreement and (ii) an executed Consent of Spouse in the form of Exhibit C to the SutroVax Voting Agreement, before submitting this Notice to the Company.

**OPTIONEE INFORMATION:** Please provide the following information about yourself ("Optionee"):

Name: «Optionee» Social Security Number: \_\_\_\_\_  
Address: \_\_\_\_\_ Employee Number: \_\_\_\_\_  
\_\_\_\_\_ Email Address: \_\_\_\_\_

**CALL OPTION INFORMATION:** Please provide this information on the call option being exercised (the "Call Option"):

Grant No. «No»

Date of Grant: «Grant\_Date»

Call Option Price per Share: \$ \_\_\_\_\_

Total number of shares of Common Stock of SutroVax, Inc. subject to the Call Option: «Total\_Number\_of\_Options»

**EXERCISE INFORMATION:**

Number of shares of Common Stock of SutroVax, Inc. for which the Call Option is now being exercised [\_\_\_\_\_]. (These shares are referred to below as the "Purchased Shares.")

Total Exercise Price Being Paid for the Purchased Shares: \$ \_\_\_\_\_

Form of payment enclosed [check all that apply]:

- Check for \$ \_\_\_\_\_, payable to "SUTRO BIOPHARMA, INC."
- Wire transfer for \$ \_\_\_\_\_
- Certificate(s) for \_\_\_\_\_ shares of Common Stock of SutroVax, Inc. These shares will be valued as of the date this notice is received by the Company. [Requires Company consent.]

**AGREEMENTS, REPRESENTATIONS AND ACKNOWLEDGMENTS OF OPTIONEE:** By signing this Call Option Exercise Notice and Agreement, Optionee hereby agrees with, and represents to, the Company as follows:

- 14. Terms Governing.** I acknowledge and agree with the Company that I am acquiring the Purchased Shares by exercise of this Call Option subject to all other terms and conditions of the Notice of Call Option Grant and the Company's 2017 Call Option Plan, as it may be amended (the "Plan").

15. **Investment Intent; Securities Law Restrictions.** I represent and warrant to the Company that I am acquiring and will hold the Purchased Shares for investment for my account only, and not with a view to, or for resale in connection with, any “distribution” of the Purchased Shares within the meaning of the Securities Act of 1933, as amended (the “*Securities Act*”). I understand that the Purchased Shares have not been registered under the Securities Act by reason of a specific exemption from such registration requirement and that the Purchased Shares must be held by me indefinitely, unless they are subsequently registered under the Securities Act or I obtain an opinion of counsel (in form and substance satisfactory to the Company and its counsel) that registration is not required. I acknowledge that the Company is under no obligation to register the Purchased Shares under the Securities Act or under any other securities law.
16. **Accredited Investor.** I hereby represent and warrant to the Company that I am an “accredited investor” under state and federal securities laws and the regulations under those laws, and I have completed the Accredited Investor Questionnaire attached hereto as **Exhibit A**.
17. **Restrictions on Transfer.**
- (a) **Rule 144.** I will not sell, transfer or otherwise dispose of the Purchased Shares in violation of the Securities Act, the Securities Exchange Act of 1934, or the rules promulgated thereunder (including Rule 144 under the Securities Act described below “*Rule 144*”) or of any other applicable securities laws. I am aware of Rule 144, which permits limited public resales of securities acquired in a non-public offering, subject to satisfaction of certain conditions, which include (without limitation) that: (a) certain current public information about the Company is available for a specified period of time; (b) the resale occurs only after the holding period required by Rule 144 has been met; (c) the sale occurs through an unsolicited “broker’s transaction”; and (d) the amount of securities being sold during any three-month period does not exceed specified limitations. I understand that the conditions for resale set forth in Rule 144 have not been satisfied and that the Company has no plans to satisfy these conditions in the foreseeable future.
- (b) **Agreement to Enter into Co-Sale and Voting Agreements.** I agree to enter into and execute (i) the SutroVax Co-Sale Agreement and the SutroVax Voting Agreement and (ii) a Consent of Spouse in the form of Exhibit D to the SutroVax Co-Sale Agreement and a Consent of Spouse in the form of Exhibit C to the SutroVax Voting Agreement, in each case concurrently with my exercise of the Call Option. I acknowledge that by entering into the SutroVax Co-Sale Agreement, I will be subjecting the Purchased Shares to the rights of first refusal, co-sale rights and all the other provisions of the SutroVax Co-Sale Agreement, and that by entering into the Voting Agreement, I will be subjected to voting and other obligations and covenants regarding all SutroVax, Inc. shares I own and all other provisions of the SutroVax Voting Agreement.
18. **Access to Information; Understanding of Risk in Investment.** I acknowledge that I have received and had access to such information as I consider necessary or appropriate for deciding whether to invest in the Purchased Shares and that I had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the issuance of the Purchased Shares. I am aware that my investment in the Company is a speculative investment that has limited liquidity and is subject to the risk of complete loss. I am able, without impairing my financial condition, to hold the Purchased Shares for an indefinite period and to suffer a complete loss of my investment in the Purchased Shares.
19. **Other Restrictions.** I acknowledge and consent to all restrictions, including transfer restrictions, in Section 11 of the Plan.
20. **Form of Ownership.** I acknowledge that the Company has encouraged me to consult my own adviser to determine the form of ownership of the Purchased Shares that is appropriate for me. In the event that I choose to transfer my Purchased Shares to a trust, I agree to sign a Stock Transfer Agreement.

- 
21. **Investigation of Tax Consequences.** I acknowledge that the Company has encouraged me to consult my own adviser to determine the tax consequences of acquiring the Purchased Shares at this time.
  22. **Other Tax Matters.** I agree that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes my tax liabilities. I will not make any claim against the Company or its Board, officers or employees related to tax liabilities arising from my options or my other compensation.
  23. **Spouse Consent.** I agree to seek the consent of my spouse to the extent required by the Company to enforce the foregoing.
  24. **Tax Withholding.** As a condition of exercising this Call Option, I agree to make adequate provision for foreign, federal, state or other tax withholding obligations, if any, which arise upon the grant, vesting or exercise of this Call Option, or disposition of the Purchased Shares, whether by withholding, direct payment to the Company, or otherwise.

The undersigned hereby executes and delivers this Call Option Exercise Notice and Agreement and agrees to be bound by its terms.

**SIGNATURE:**  
«OPTIONEE»

**DATE:**

---

**ACCEPTED BY:**  
Sutro Biopharma, Inc.

---

By

---

Title

**DATE:**  
**TIME:**

*[Signature Page to Sutro Biopharma, Inc. Call Option Exercise Notice and Agreement]*

**EXHIBIT A**

**ACCREDITED INVESTOR QUESTIONNAIRE**

The purpose of this Questionnaire is to determine whether you are an "accredited investor" under state and federal securities laws and the regulations under those laws with respect to the issuance of equity shares of SutroVax, Inc. by Sutro Biopharma, Inc. (the latter, the "*Company*"). Your answers will be kept confidential at all times. However, by signing this Questionnaire, you agree that the Company may present this Questionnaire to such parties as it deems appropriate to establish the availability of exemptions from registration or qualification requirements under federal and state securities laws.

**1. CONTACT INFORMATION**

Full Legal Name of Investor: \_\_\_\_\_

Address (including zip code): \_\_\_\_\_

Phone Number: (\_\_\_\_) \_\_\_\_-\_\_\_\_ Fax Number: (\_\_\_\_) \_\_\_\_-\_\_\_\_

E-mail Address: \_\_\_\_\_

**2. DEFINITION OF "ACCREDITED INVESTOR"**

The definition of "accredited investor" within the meaning of the Securities and Exchange Commission Rule 501 of Regulations D, as presently in effect, includes, for example, (i) any person whose individual net worth, or joint net worth with that person's spouse, at the time of purchase of securities exceeds \$1,000,000, excluding the value of that person's primary residence and (ii) any person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year. If any of the below apply to you please initial here \_\_\_\_\_. Please indicate the number(s) of the basis for your status as an "accredited investor" as stated below.

- 1 Your individual net worth, or your joint net worth with your spouse, exceeds \$1,000,000, excluding the value of your primary residence.
- 2 You personally have had an individual income in excess of \$200,000 in each of the two (2) most recent years and you reasonably expect an income in excess of \$200,000 in the current year.
- 3 Your joint income with your spouse is in excess of \$300,000 in each of the two (2) most recent years and you reasonably expect a joint income in excess of \$300,000 in the current year.

The information provided in this Questionnaire is true and complete as of the date provided below in all material respects and the undersigned recognizes that the Company is relying on the truth and accuracy of such information.

\_\_\_\_\_  
(Signature)

Date: \_\_\_\_\_

Name: \_\_\_\_\_  
(Please Print or Type)



**SUTRO BIOPHARMA, INC.**  
**2017 CALL OPTION PLAN**  
**NOTICE OF CALL OPTION GRANT**

The individual listed below (“**Participant**”) has been granted the Call Option set forth below on the terms and conditions set forth in this Notice of Call Option Grant (this “**Notice**”) and the Sutro Biopharma, Inc. 2017 Call Option Plan (the “**Plan**”) by Sutro Biopharma Inc., a Delaware corporation. The terms defined in the Plan shall have the same defined meanings in this Notice.

Grant Number:

Date of Grant:

Participant Name:

Number of Shares of Common Stock of SutroVax Subject to Call Option (the “**Subject Shares**”):

Exercise Price:

Vesting Start Date: January 1, 2017

Vesting Schedule: Except as otherwise determined by the Administrator, and provided that a Participant is in Continuous Service Status on each of the following dates, 25% of the Call Option shall vest on each of the following dates: January 1, 2017; January 1, 2018; January 1, 2019; and January 1, 2020.

Call Option Expiration Date: As provided in Section 5(c)(i) of the Plan.

Call Option Exercise Window: The period commencing on October 1 and ending on December 31 of each calendar year.

Restrictions on Transfer of Subject Shares: As a material inducement and consideration for Sutro Biopharma to enter into this Notice, Participant hereby delivers a duly authorized and executed copy of the Joinder Agreement attached hereto as **Exhibit A**, pursuant to which Participant (a) agrees to enter into and become a party to (i) the Amended and Restated Right of First Refusal and Co-Sale Agreement, dated as of March 3, 2017, by and among SutroVax and certain stockholders and other investors in SutroVax, as such may be amended and/or restated from time to time, or any other agreement that is a successor to or replacement of such agreement (collectively, the “**SutroVax Co-Sale Agreement**”) (and to subject the Subject Shares to the rights of first refusal held by SutroVax and other SutroVax investors thereunder and the co-sale rights of other investors thereunder), and (ii) the Amended and Restated Voting Agreement, dated as of March 3, 2017, by and

---

among SutroVax and certain stockholders and other investors in SutroVax, as such may be amended and/or restated from time to time, or any other agreement that is a successor to or replacement of such agreement (collectively, the “**SutroVax Voting Agreement**”) (pursuant to which Participant would agree to vote all Subject Shares held by Participant for the election of directors and in favor of certain material transactions (such as mergers or sales of SutroVax)) and deliver to SutroVax signature pages thereto, and (b) if applicable, agrees to deliver to SutroVax (i) an executed Consent of Spouse in the form of Exhibit D to the SutroVax Co-Sale Agreement and (ii) an executed Consent of Spouse in the form of Exhibit C to the SutroVax Voting Agreement, in each case at the time of exercising this Call Option and as a condition to such exercise.

This Notice shall not be effective unless and until this Notice is signed by Participant and representatives of Sutro Biopharma and returned to Sutro Biopharma. A copy of this Notice and the Plan shall be provided to Participant.

Participant hereby acknowledges receipt of a copy of this Notice and a copy of the Plan and agrees that Participant accepts the grant of the Call Option subject to all of the terms set forth in this Notice and the Plan (which is incorporated herein by this reference), which together constitute the entire agreement of the parties and supersede in their entirety all prior undertakings, understandings and agreements of Sutro Biopharma and Participant with respect to the subject matter hereof.

*[Signature page follows]*

---

This Notice has been executed and agreed to by the parties as of the date or dates set forth below.

**PARTICIPANT**

**SUTRO BIOPHARMA, INC.**

\_\_\_\_\_  
Signature

By: \_\_\_\_\_

\_\_\_\_\_  
Print Name

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

*[Signature page to Sutro Biopharma, Inc. Notice of Call Option Grant]*

---

**EXHIBIT A**

FORM OF JOINDER AGREEMENT

## JOINDER AGREEMENT

This Joinder Agreement (this "**Agreement**") is made and entered into as of [\_\_\_\_], 2017 (the "**Effective Date**") by and among [\_\_\_\_] ("**Participant**"), Sutro Biopharma, Inc., a Delaware corporation ("**Sutro Biopharma**"), and SutroVax, Inc., a Delaware corporation ("**SutroVax**").

WHEREAS, Sutro Biopharma previously purchased Three Million (3,000,000) shares of Common Stock of SutroVax (the "**Purchased Shares**") pursuant to that certain Common Stock Purchase Agreement (the "**Purchase Agreement**") dated as of December 12, 2013 by and between Sutro Biopharma and SutroVax.

WHEREAS, Sutro Biopharma has granted to Participant the option (the "**Call Option**") to purchase [\_\_\_\_] of the Purchased Shares (the "**Call Option Shares**") pursuant to the terms of (i) the Sutro Biopharma, Inc. 2017 Call Option Plan and (ii) that certain Notice of Call Option Grant dated on or about the date hereof by and between Participant and Sutro Biopharma.

WHEREAS, in connection with the grant of the Call Option to Participant, (i) SutroVax desires to consent to and waive any rights of first refusal with respect to the grant of the Call Option to Participant and, upon the exercise of the Call Option by Participant, the purchase of the Call Option Shares by Participant, and (ii) Participant has agreed to, upon exercise of the Call Option by Participant, (a) be bound by and subject to all of the provisions of the Purchase Agreement and (b) become party to that certain Amended and Restated Right of First Refusal and Co-Sale Agreement, dated as of March 3, 2017, by and among SutroVax and certain stockholders and other investors in SutroVax, as such may be amended and/or restated from time to time, or any other agreement that is a successor to or replacement of such agreement (collectively, the "**SutroVax Co-Sale Agreement**") and that certain Amended and Restated Voting Agreement, dated as of March 3, 2017, by and among SutroVax and certain stockholders and other investors in SutroVax, as such may be amended and/or restated from time to time, or any other agreement that is a successor to or replacement of such agreement (collectively, the "**SutroVax Voting Agreement**," and together with the SutroVax Co-Sale Agreement, the "**Stockholder Agreements**").

NOW THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

**1. Consent to Grant of Call Option.** SutroVax consents to and waives any rights of first refusal, whether under the Purchase Agreement, the Stockholder Agreements or otherwise, with respect to the grant of the Call Option to Participant and, upon the exercise of the Call Option by Participant, to the purchase of the Call Option Shares by Participant.

**2. Joinder.**

2.1 Participant agrees to, upon exercise of the Call Option by Participant, be bound by and subject to all of the provisions of the Purchase Agreement, including, without limitation, the right of first refusal and lock-up agreement set forth therein, and hereby makes the investment representations listed on Exhibit A to the Purchase Agreement to the Company as of the date of this Agreement.

2.2 Participant agrees to, upon exercise of the Call Option by Participant, be subject to all the rights and obligations of a "Key Common Holder" under the SutroVax Co-Sale Agreement and to be bound by and subject to all of the provisions thereof.

2.3 Participant agrees to, upon exercise of the Call Option by Participant, be subject to all the rights and obligations of a “Key Common Holder” under the SutroVax Voting Agreement and to be bound by and subject to all of the provisions thereof.

2.4 Participant hereby agrees to deliver to SutroVax, upon exercise of the Call Option by Participant (i) a duly executed counterpart signature page to each Stockholder Agreement (attached as Exhibit A) and (ii) if Participant is married at such time, (a) an executed Consent of Spouse in the form of Exhibit D to the SutroVax Co-Sale Agreement and (b) an executed Consent of Spouse in the form of Exhibit C to the SutroVax Voting Agreement.

2.5 Participant hereby acknowledges receipt of true and complete copies of the Purchase Agreement and each of the Stockholder Agreements.

### **3. General Provisions.**

3.1 Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law.

3.2 Assignment; Binding Upon Successors and Assigns. No party may assign any of its respective rights or obligations under this Agreement without the written consent of the other parties to such assignment. This Agreement, and the rights and obligations of the parties hereunder, will be binding upon and inure to the benefit of the parties hereto and their respective permitted successors, assigns, heirs, executors, administrators and legal representatives.

3.3 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as though such provision were so excluded and shall be enforceable in accordance with its terms.

3.4 Expenses. Each party will bear its respective legal, auditors’, investment bankers’ and financial advisors’ fees and other expenses incurred with respect to this Agreement and the transactions contemplated hereby.

3.5 Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by fax (upon customary confirmation of receipt), or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, addressed to the party to be notified at such party’s address as set forth on the signature page hereto, or as subsequently modified by written notice, and if to Sutro Biopharma, with a copy to Fenwick & West LLP, Attention: Effie Toshav, 1191 Second Avenue, 10<sup>th</sup> Floor, Seattle, WA 98101.

3.6 Amendment and Waivers. This Agreement may be amended only by a written agreement executed by each of the parties hereto. Any amendment effected in accordance with this section will be binding upon all parties hereto and each of their respective successors and assigns.

3.7 Attorneys’ Fees. If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney’s fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

---

3.8 Counterparts: Facsimile Signatures. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and all of which together shall constitute one and the same agreement. This Agreement may be executed and delivered by facsimile and upon such delivery the facsimile signature will be deemed to have the same effect as if the original signature had been delivered to the other party.

3.9 Further Assurances. The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Agreement.

3.10 Entire Agreement. This Agreement, the Purchase Agreement, the Stockholder Agreements and all other documents referred to herein constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.

**[Signature page follows]**

IN WITNESS WHEREOF, each of the parties has executed this Agreement as of the Effective Date.

**SUTRO BIOPHARMA, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**PARTICIPANT**

\_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**SUTROVAX, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**LIST OF EXHIBITS**

Exhibit A: Signature Pages to Stockholder Agreements

[SIGNATURE PAGE TO JOINDER AGREEMENT]



---

**EXHIBIT A**

**Signature Pages to Stockholder Agreements**

---

**KEY COMMON HOLDER**

Name: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

*(Signature page to the Amended and Restated Right of First Refusal and Co-Sale Agreement)*

---

**KEY COMMON HOLDER**

Name: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

*(Signature page to the Amended and Restated Right of First Refusal and Co-Sale Agreement)*



December 29, 2008

William Newell  
[PRIVATE ADDRESS]

Dear Bill,

On behalf of the Search Committee, we are pleased to offer you the position of Chief Executive Officer with Sutro Biopharma, Inc. (the "Company"). We are delighted that you have agreed to join us! As Chief Executive Officer, you will receive an annual salary of \$325,000, which will be paid semi-monthly in accordance with the Company's normal payroll procedures. In addition, you will be eligible for a bonus of up to 30% of your annual salary based upon your performance and the Company's performance. The bonus payout will be determined annually, typically in March, by the Compensation Committee. You will first be eligible for bonus consideration in March, 2010. As an employee, you will also be eligible to receive certain employee benefits including health insurance, life insurance and disability insurance, with reasonable and customary coverage and deductibles or co-payments. Please refer to the benefits summary for specific details. You should note that the Company may modify job titles, salaries and benefits from time to time as it deems necessary.

In addition, if you decide to join the Company, it will be recommended at the first meeting of the Company's Board of directors following your start date that the Company grant you an option to purchase 1,428,452 shares which is approximately 4% of the outstanding post 2<sup>nd</sup> tranche shares of the Company's Common Stock at a price per share equal to the fair market value per share of the Common Stock on the date of grant, as determined by the Company's Board of Directors. Twenty-five percent (25%) of the shares subject to the option shall vest 12 months after the date your vesting begins subject to your continuing employment with the Company, and no shares shall vest before such date. The remaining shares shall vest monthly over the next 36 months in equal monthly amounts subject to your continuing employment with the company.

---

This option grant shall be subject to the terms and conditions of the company's Stock Option Plan and Stock Option Agreement, including vesting requirements. No right to any stock is earned or accrued until such time that vesting occurs, nor does the grant confer any right to continue vesting or employment.

The Company is excited about your joining and looks forward to a beneficial and productive relationship. Nevertheless, you should be aware that your employment with the Company is for no specified period and constitutes at-will employment. As a result, you are free to resign at any time, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice. We request that, in the event of resignation, you give the Company at least two weeks notice.

The Company reserves the right to conduct background investigations and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon a clearance of such a background investigation and/or reference check, if any.

For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

We also ask that, if you have not already done so, you disclose to the Company any and all agreements relating to your prior employment that may affect your eligibility to be employed by the Company or limit the manner in which you may be employed. It is the Company's understanding that any such agreements will not prevent you from performing the duties of your position and you represent that such is the case. Moreover, you agree that, during the term of your employment with the company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company. Similarly, you agree not to bring any third party confidential information to the Company, including that of your former employer, and that in performing your duties for the Company you will not in any way utilize any such information.

As a Company employee, you will be expected to abide by the company's rules and standards. Specifically, you will be required to sign an acknowledgment that you have read and that you understand the Company's rules of conduct, which are included in the Company Handbook.

---

As a condition of your employment, you are also required to sign and comply with an At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement which requires, among other provisions, the assignment of patent rights to any invention made during your employment at the Company, and non-disclosure of company proprietary information. In the event of any dispute or claim relating to or arising out of our employment relationship, you and the Company agree that (i) any and all disputes between you and the Company shall be fully and finally resolved by binding arbitration, (ii) you are waiving any and all rights to a jury trial but all court remedies will be available in arbitration, (iii) all disputes shall be resolved by a neutral arbitrator who shall issue a written opinion, (iv) the arbitration shall provide for adequate discovery, and (v) the Company shall pay all but the first \$125 of the arbitration fees. Please note that we must receive your signed Agreement before your first day of employment.

To accept the Company's offer, please sign and date this letter in the space provided below. A duplicate original is enclosed for your records. If you accept our offer, your first day of employment will be January 7, 2009. This letter, along with any agreements relating to proprietary rights between you and the Company, set forth the terms of your employment with the Company and supersede any prior representations or agreements including, but not limited to, any representations made during your recruitment, interviews or pre-employment negotiations, whether written or oral. This letter, including, but not limited to, its at-will employment provision, may not be modified or amended except by a written agreement signed by Sutro's Board of Directors on behalf of the Company and you. This offer of employment will terminate if it is not accepted, signed and returned 72 hours following your receipt of a signed signature page.

We look forward to working with you at Sutro Biopharma and together, building a successful Company!

*[signature page follows]*



To indicate your acceptance of the Company's offer, please sign and date this letter in the space provided below and return it to me. A duplicate original is enclosed for your records.

Sincerely,

/s/ Daniel Gold  
Name Daniel Gold  
Title CEO

Agreed to and accepted:

Signature:           /s/ William J. Newell          

Printed Name:           William J. Newell          

Date:                           Dec. 29, 2008          

Enclosures:

Duplicate Original Letter  
At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement (to be provided as soon as practical)  
TriNet Benefits Summary

---

**SUTRO BIOPHARMA, INC.**

**MANAGEMENT CONTINUITY AGREEMENT**

This Management Continuity Agreement (the "Agreement") is made and entered into by and between William Newell (the "Employee") and Sutro Biopharma, Inc. (the "Company"), effective as of the last date signed below (the "Effective Date").

1. Term of Agreement. This Agreement shall terminate upon the date that all obligations of the parties hereto with respect to this Agreement have been satisfied.
2. At-Will Employment. The Company and the Employee acknowledge that the Employee's employment is and shall continue to be at-will, as defined under applicable law. If the Employee's employment terminates for any reason, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and practices.
3. Certain Terminations Prior to or More than One Year After a Change of Control If, prior to a Change of Control, as defined herein (a "Change of Control") or more than one year after a Change of Control, Employee's employment with the Company is involuntarily terminated other than for Cause, as defined herein ("Cause") then, subject to Employee complying with Section 6 hereof, Employee shall receive (a) continued payment of Employee's base salary (less applicable tax withholdings) for nine (9) months following such termination, such amounts to be paid in accordance with the Company's normal payroll policies; (b) nine months of accelerated vesting on all outstanding Company stock options; and (c) 100% Company-paid premiums paid for continued health benefits for Employee (and any eligible dependents) under the Company's group health, dental and vision plans until the earlier of (A) nine (9) months or (B) the date upon which Employee and his eligible dependents become covered under similar plans of another employer; subject, however, to Employee validly electing to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA").
4. Certain Terminations Within One Year After a Change of Control If, on or within one year following a Change of Control, Employee's employment with the Company is either (i) involuntarily terminated other than for Cause, or (ii) voluntarily terminated by Employee for Good Reason, as defined herein ("Good Reason"), then, subject to Employee complying with Section 6 hereof, Employee shall receive (a) continued payment of Employee's base salary (less applicable tax withholdings) for fifteen (15) months following such termination, such amounts to be paid in accordance with the Company's normal payroll policies; (b) 100% accelerated vesting on all outstanding Company stock options; and (c) 100% Company-paid premiums paid for continued health benefits for Employee (and any eligible dependents) under the Company's group health, dental and vision plans until the earlier of (A) twelve (12) months or (B) the date upon which Employee and his eligible dependents become covered under similar plans of another employer; subject, however, to Employee validly electing to continue coverage under COBRA.



5. Other Employment Terminations.

(a) Certain Voluntary Resignations; Termination For Cause. If the Employee's employment terminates by reason of the Employee's voluntary resignation (other than for Good Reason on or within one year following a Change of Control), or if the Employee is terminated for Cause, then the Employee shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other agreements with the Company.

(b) Death or Disability. If the Company terminates the Employee's employment as a result of the Employee's death or Disability, then the Employee shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other agreements with the Company.

6. Release of Claims. The receipt of any benefits pursuant to the sections 3 or 4 hereof will be subject to Employee signing and not revoking a separation agreement and release of claims substantially in the form attached to this agreement as Exhibit A (the "Release"), provided that such release becomes effective no later than sixty (60) days following Employee's termination date or such earlier date required by the Release (such deadline, the "Release Deadline"). If the Release does not become effective by the Release Deadline, Employee will forfeit any rights to severance or benefits under this letter, and in no event will severance payments or benefits be paid or provided until the Release actually becomes effective. In the event Employee's termination occurs at a time during the calendar year where the Release could become effective in the calendar year following the calendar year in which Employee's termination occurs, then any severance payments or benefits under this letter that would be considered Deferred Compensation Separation Benefits (as defined on Exhibit B hereto) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (i) the Release Deadline, (ii) such time as required by the payment schedule applicable to each payment or benefit as set forth in Section 7, or (iii) such time as required by this paragraph.

7. Internal Revenue Code Section 409A

(a) Notwithstanding anything to the contrary herein, no Deferred Compensation Separation Benefits (as defined below) will become payable hereunder unless and until Employee has a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any proposed or final regulations and guidance promulgated thereunder ("Section 409"). Further, if Employee is a "specified employee" within the meaning of Section 409A at the time of Employee's termination (other than due to death), and the severance or other benefits payable to Employee, if any, hereunder, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits"), such Deferred Compensation Separation Payments that are otherwise payable within the first six (6) months following Employee's termination of employment will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Employee's termination of employment (or such later date as is

required to avoid the imposition of additional tax under Section 409A). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Employee dies following his termination but prior to the six (6) month anniversary of his termination (or any later delay date), then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Employee's death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable hereunder is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(b) Any amount paid hereunder that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Compensation Separation Benefits for purposes of section (a) above.

(c) Any amount paid hereunder that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit shall not constitute Deferred Compensation Separation Benefits for purposes of section (a) above. For purposes of this section (c), "Section 409A Limit" means the lesser of 2 times: (i) Employee's annualized compensation based upon the annual rate of pay paid to Employee during Employee's taxable year preceding the Employee's taxable year in which his employment terminated as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Internal Revenue Code for the year in which Employee's employment is terminated.

(d) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided under the letter will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Employee and the Company agree to work together in good faith to consider amendments to the letter and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Employee under Section 409A.

8. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Cause. "Cause" means (i) an unauthorized use or disclosure of the Company's confidential information or trade secrets, which use or disclosure causes material harm to the Company; (ii) a deliberate material failure in the performance of Employee's duties as Chief Executive Officer or any other duties as pertaining to employees of the Company generally; provided however that in such event Employee may only be terminated for Cause following receipt of notice from the Board of Directors specifying the alleged act or acts of deliberate material failure and an opportunity for the Employee to respond to the Board of Directors in person, with his attorney present; (iii) conviction of, or pleas of "guilty" or "no contest" to, a felony under the laws of the United States or any state thereof; (iv) gross misconduct; or (v) a continued failure to perform assigned duties customarily performed by a Chief Executive Officer of a corporation of similar size, after receiving written notification of such failure from the Board of Directors.

---

(b) Change of Control. “Change of Control” means the occurrence of any of the following events: (i) the closing of a consolidation or merger of the Company with or into any other corporation in which the holders of the Company’s outstanding shares immediately before such consolidation or merger do not, immediately after such consolidation or merger, retain stock representing a majority of the voting power of the surviving corporation of such consolidation or merger; or (ii) a sale of all or substantially all of the assets of the Company. Notwithstanding the foregoing, in no event shall (A) an initial public offering of Common Stock pursuant to a registration statement filed with the Securities and Exchange Commission; (B) any equity financing (including the issuance of convertible debt) of the Company in a single transaction or a series of transactions; or (C) a transaction whose primary purpose is to change the state of the Company’s incorporation and/or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company’s securities before such transaction constitute a Change of Control for purposes of this Agreement.

(c) Disability. “Disability” shall mean that the Employee has been unable to perform his Company duties as the result of his incapacity due to physical or mental illness, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Employee or the Employee’s legal representative (such Agreement as to acceptability not to be unreasonably withheld).

(d) Good Reason. “Good Reason” shall mean (a) a reduction in Employee’s title, or any material reduction in Employee’s level of responsibility and/or scope of authority; or (b) a material reduction in Employee’s base salary (other than a reduction generally applicable to executive officers of the Company implemented for expense management purposes); or (c) a requirement for Employee to relocate to an office that is more than fifty (50) miles from the location of the Company’s principal offices at the time of such relocation; provided, however, that the Employee must provide written notice to the Company of the condition that could constitute a “Good Reason” event within ninety (90) days of the initial existence of such condition and such condition must not have been remedied by the Company within thirty (30) days of such written notice. For the avoidance of doubt, on and after a Change of Control (so long as the Company’s equity securities are not publicly traded on an established U.S. national securities market immediately prior to such Change of Control), a reduction in Employee’s title, or a material reduction in Employee’s level of responsibility and/or scope of authority shall not be deemed to occur if Employee retains principal management authority and responsibility for the business unit or division containing substantially all of the Company’s business acquired in the Change of Control.

9. Successors

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement.

(b) Employee's Successors. The terms of this Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

10. Miscellaneous Provisions

(a) No Duty to Mitigate. The Employee shall not be required to mitigate the amount of any benefit contemplated by this Agreement, nor shall any such benefit be reduced by any earnings that the Employee may receive from any other source.

(b) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Company (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to severance. This Agreement shall take precedence over any other documents that may conflict with this Agreement. This Agreement, the offer letter by and between Employee and the Company dated December 29, 2008, any agreements relating to proprietary rights between Employee and the Company, Employee's stock option agreements and the At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement set forth the terms of Employee's employment with the Company and supersede any prior representations or agreements including, but not limited to, any representations made during Employee's recruitment, interviews or pre-employment negotiations, whether written or oral. This Agreement, including, but not limited to, its at-will employment provision, may not be modified or amended except by a written agreement signed by a duly authorized member of the Company's Board of Directors on behalf of the Company and Employee.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, on the dates set forth below.

SUTRO BIOPHARMA, INC.

EMPLOYEE

By: /s/ Daniel Gold

/s/ William J. Newell  
(Signature)

Date: Jan 28, 2009

Date: Jan. 28, 2009

---

**EXHIBIT A**

**GENERAL RELEASE OF ALL CLAIMS**

In consideration of the severance benefits to be provided to William Newell by Sutro Biopharma, Inc. (the "Company"), pursuant to the terms of the Management Continuity Agreement you entered into with the Company dated as of [\_\_\_\_\_], 2008 (the "Agreement"), you, on your own behalf and on behalf of your heirs, executors, administrators, and assigns, hereby fully and forever release and discharge the Company and its directors, officers, employees, agents, successors, predecessors, subsidiaries, parent, stockholders, employee benefit plans and assigns (together called the "Releasees"), from all known and unknown claims and causes of action including, without limitation, any claims or causes of action arising out of or relating in any way to your employment with the Company, including the termination of that employment.

Eight days after you sign (and do not revoke) this General Release of All Claims ("Release"), provided that it is not signed earlier than your cessation of employment, you will be entitled to the severance benefits or change of control benefits set forth in the Agreement, subject to any other requirements set forth therein that are conditioned on this Release, including any payment delay required by Sections 6 or 7 of the Agreement.

You understand and agree that this Release is a full and complete waiver of all claims, including (without limitation) claims to attorneys' fees or costs, claims of wrongful discharge, constructive discharge, breach of contract, breach of the covenant of good faith and fair dealing, harassment, retaliation, discrimination, violation of public policy, defamation, invasion of privacy, interference with a leave of absence, personal injury, fraud or emotional distress and any claims of discrimination or harassment based on sex, age, race, national origin, disability or any other basis under Title VII of the Civil Rights Act of 1964, the Fair Labor Standards Act, the Equal Pay Act of 1963, the Americans With Disabilities Act, the Age Discrimination in Employment Act of 1967 (ADEA), the *California Labor Code*, the California Fair Employment and Housing Act, the California Family Rights Act, the Family Medical Leave Act or any other federal or state law or regulation relating to employment or employment discrimination. You further understand and agree that this waiver includes all claims, known and unknown, to the greatest extent permitted by applicable law.

You also hereby agree that nothing contained in this Release shall constitute or be treated as an admission of liability or wrongdoing by the Releasees or you.

In addition, you hereby expressly waive any and all rights and benefits conferred upon you by the provisions of Section 1542 of the *Civil Code of the State of California*, which states as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

---

If any provision of this Release is found to be unenforceable, it shall not affect the enforceability of the remaining provisions and the court shall enforce all remaining provisions to the full extent permitted by law.

You agree to provide, at the Company's expense, including reimbursement of your time and/or the reasonable fees and expenses of your counsel, reasonable cooperation and complete and accurate information to the Company (voluntarily, without requiring a subpoena or other compulsion of law) in the event of litigation against the Company and/or its officers or directors. You also agree that you will not assist any person in bringing or pursuing any claim or action of any kind against the Company, unless pursuant to subpoena or other compulsion of law.

This Release constitutes the entire agreement between you and Releasees with regard to the subject matter of this Release. It supersedes any other agreements, representations or understandings, whether oral or written and whether express or implied, which relate to the subject matter of this Release except as otherwise set forth in the Agreement. However, this Release covers only those claims that arose prior to the execution of this Release. Execution of this Release does not bar any claim that arises hereafter, including (without limitation) a claim for breach of the Agreement.

You understand that you have the right to consult with an attorney before signing this Release. You have 21 days after receipt of this Release to review and consider this Release, discuss it with an attorney of your own choosing, and decide to execute it or not execute it. You also understand that you may revoke this Release during a period of seven days after you sign it and that this Release will not become effective for seven days after you sign it (and then only if you do not revoke it). In any event, this Release is not to be signed, and will not become effective, prior to your cessation of employment. In order to revoke this Release, within seven days after you execute this Release you must deliver to \_\_\_\_\_ at the Company a letter stating that you are revoking it.

You understand that if you choose to revoke this Release within seven days after you sign it, you will not receive the severance benefits set forth in the Agreement that are conditioned on this Release and the Release will have no effect.

You agree not to disclose to others the terms of this Release, except that you may disclose such information to your spouse, your domestic partner and to your attorney or accountant in order for such attorney or accountant to render services to you related to this Release.

---

You state that before signing this Release, you:

- Have read it,
- Understand it,
- Know that you are giving up important rights,
- Are aware of your right to consult an attorney before signing it, and
- Have signed it knowingly and voluntarily.

Date: \_\_\_\_\_

By: \_\_\_\_\_

William Newell

TO BE SIGNED UPON CESSATION OF EMPLOYMENT



Sutro Biopharma, Inc.

Re: Amendments to Management Continuity Agreement

To Whom It May Concern:

This letter (this "**Amendment**") serves to partially amend the original Management Continuity Agreement by and between Sutro Biopharma, Inc. (the "**Company**") and William Newell effective January 28, 2009 (the "**Management Continuity Agreement**"). This Amendment shall be effective as of the first date set forth above. In consideration for Mr. Newell's service to the Company:

1. Section 3 of the Management Continuity Agreement is superseded and replaced in its entirety with the following:

"Certain Terminations; Change of Control. Upon the earlier to occur of (i) a Change of Control, as defined herein, occurring during the Employee's employment with the Company and (ii) the termination by the Company of the Employee's employment with the Company other than for Cause, or the voluntary termination by Employee of employment with the Company for Good Reason, as defined herein (each, a "Trigger Event"), subject to Employee complying with Section 6 hereof, Employee shall receive the following:

(a) if the Trigger Event is a Change of Control, (1) continued payment of Employee's base salary (less applicable tax withholdings) for eighteen (18) months following such Change of Control, such amounts to be paid in accordance with the Company's normal payroll policies, and (2) 100% accelerated vesting on all outstanding Company stock options, including without limitation all stock options for which Employee has made an early exercise and that are still subject to vesting, and Company restricted stock; or

(b) if the Trigger Event is termination by the Company of the Employee's employment with the Company other than for Cause, or the voluntary termination by Employee of employment with the Company for Good Reason, (1) the continued payment of Employee's base salary (less applicable tax withholdings) for eighteen (18) months following such termination, such amounts to be paid in accordance with the Company's normal payroll policies, (2) eighteen (18) months of accelerated vesting on all outstanding Company stock options, including without limitation all stock options for which Employee has made an early exercise and that are still subject to vesting, and Company restricted stock, and (3) 100% Company-paid premiums paid for continued health benefits for Employee (and any eligible dependents) under the Company's group health, dental and vision plans until the earlier of (A) eighteen (18) months or (B) the date upon which Employee and his eligible dependents become covered under similar plans of another employer; subject, however, to Employee validly electing to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA").

Notwithstanding the foregoing, if the Trigger Event is a Change of Control, and if Employee's employment with the Company is subsequently terminated by the Company other than for Cause, or the Employee voluntarily terminates employment with the Company for Good Reason, Employee shall receive 100% Company-paid premiums paid for continued health benefits for Employee (and any eligible dependents) under the Company's group health, dental and vision plans until the earlier of (A) eighteen (18) months or (B) the date upon which Employee and his eligible dependents become covered under similar plans of another employer; subject, however, to Employee validly electing to continue coverage under COBRA. For the avoidance of doubt, the benefits set forth in this paragraph are not intended to be a duplication of the benefits set forth in Section 3(b) above.

Notwithstanding the foregoing, if the Company, in its sole discretion, determines that it cannot provide the foregoing reimbursement of COBRA premiums without potentially causing the Company to incur additional expense or being subject to an excise tax under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company instead shall provide Employee with a taxable monthly payment (a) in an amount equal to the monthly COBRA premium that Employee would be required to pay to continue the group health coverage in effect on Employee's Separation (which amount shall be based on the premium for the first month of COBRA coverage), (b) which shall be made regardless of whether Employee elects COBRA continuation coverage and (c) which shall commence on the later of (i) the first day of the month following the month in which Employee's Separation occurs and (ii) the effective date of the Company's determination, and shall end on the earlier of (x) the effective date on which Employee become covered by a health, dental or vision insurance plan of a subsequent employer, and (y) the date upon which the Company has made eighteen (18) monthly payments. Employee shall have no right to an additional gross-up payment to account for the fact that such COBRA premium amounts are paid on an after-tax basis.

Any amounts or benefits payable upon Employee's Separation that are subject to, and not exempt from, Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") will be delayed if Employee is a "specified" employee under Section 409A until six months after such separation or, if earlier, Employee's death. Delayed payments will be paid in a lump sum at the expiration of the delay period and any payments not delayed will be paid in accordance with their original schedule. No payment will be made upon a disability or terminal illness unless and until such condition qualifies as a "Disability" within the meaning of Section 409A or, earlier, upon a timely established permissible payment event under Section 409A, if any. Payments under this Agreement are intended to constitute separate payments for purposes of Section 409A to the maximum extent permitted.

---

For purposes of this section, "Separation" means a "separation from service," as defined in Treasury Regulation §1.409A-1(h)."

2. Section 4 of the Management Continuity Agreement is superseded and replaced in its entirety with the following:

"[Reserved]."

3. Section 8(b) of the Management Continuity Agreement is superseded and replaced in its entirety with the following:

"Change of Control. "Change of Control" means:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company's then outstanding securities;

(ii) the Company is party to a merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving or another entity) at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving or other entity outstanding immediately after such merger or consolidation; or

(iii) the sale or disposition of all or substantially all of the Company's assets (or consummation of any transaction having similar effect).

Notwithstanding the foregoing, a transaction will not be deemed a Change of Control unless the transaction qualifies as a change of control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time."

4. Section 8(d) of the Management Continuity Agreement is superseded and replaced in its entirety with the following:

"Good Reason. "Good Reason" means:

(a) a material reduction in Employee's level of duties, responsibility and/or scope of authority; or (b) a material reduction in Employee's base salary (other than a reduction generally applicable to executive officers of the Company implemented for expense management purposes); or (c) a requirement for Employee to relocate

to an office that is more than fifty (50) miles from the location of the Company's principal offices at the time of such relocation; provided, however, that (i) the Employee must provide written notice to the Company of the condition that could constitute a "Good Reason" event within ninety (90) days of the initial existence of such condition, (ii) the Employee must give the Company an opportunity to cure such condition within thirty (30) days following delivery of such written notice and (iii) provided the Company has failed to cure such condition within such 30-day cure period, Employee must terminate his employment within ten (10) days following expiration of such cure period. For the avoidance of doubt, on and after a Change of Control (so long as the Company's equity securities are not publicly traded on an established U.S. national securities market immediately prior to such Changes of Control), a material reduction in Employee's level of responsibility and/or scope of authority shall not be deemed to occur if Employee retains principal management authority and responsibility for the business unit or division containing substantially all of the Company's business acquired in the Change of Control."

All other terms and conditions of the Management Continuity Agreement shall continue in full force and effect.

Please sign below to indicate acceptance of the terms of this Amendment.

Sincerely,

Sutro Biopharma, Inc.

/s/ [illegible]

By: \_\_\_\_\_

Its: \_\_\_\_\_

The undersigned has read and understood this Amendment and hereby acknowledges, accepts and agrees to the terms as set forth above.

/s/ William J. Newell

William J. Newell



December 11, 2015

Arturo Molina, M.D.  
[PRIVATE ADDRESS]

Dear Arturo,

We are very pleased to present this revised offer of employment to you for the position of Chief Medical Officer at Sutro Biopharma (the "Company"), reporting to William J. Newell, Chief Executive Officer. This letter sets forth the terms and conditions of our proposal for your employment. You may accept this offer by signing and returning a copy of it to me as provided below.

You will receive an annual salary of \$415,000.00 which will be paid semi-monthly in accordance with the Company's normal payroll procedures. Furthermore, in each calendar year during your employment with the Company, you will be eligible to receive an annual bonus dependent on performance objectives, which will be based on company objectives established by the Company's Board of Directors in their discretion. Your target bonus will be equal to forty percent (40%) of your base salary, assuming the achievement of such performance objectives as determined solely by the Company's Board of Directors. Any bonus that you earn will be paid to you within two and one-half (2-1/2) months of the end of the calendar year in which it is earned, and shall be paid in cash, less any usual, required withholding. As an employee, you will also be eligible to receive certain employee benefits including health insurance, life insurance and disability insurance, with reasonable and customary coverages and deductibles or copayments. Annually, you will receive 20 days or Paid Time Off (PTO) which will be earned and accrued at the rate of 1.66 days per month. A summary of the Company's benefits is included with this letter.

You will also receive a \$150,000 signing bonus, subject to applicable taxes and withholdings, to be paid to you on your first pay period following your start date of employment.

In addition to the above salary and other consideration, at the next regularly scheduled meeting of the Company's Board of Directors, following your commencement of employment, you will be granted a stock option to purchase the number of shares of the Company's common stock equal to 1.50% of the Company's capital stock calculated on a fully diluted basis at the time of grant. The price per share shall be equal to the fair market value per share of the Company's Common Stock on the grant date as determined by the Company's Board of Directors. For this grant, you will be 25% vested on the anniversary of your first year of employment. The remaining shares, subject to your stock option grant, will vest over the following three years of your employment at the rate of 1/36 per month in equal monthly installments subject to your continuous service with the Company. You will be eligible to receive additional stock option grants in the future at the discretion of the Company's Board of Directors.

---

This option grant shall be subject to the terms and conditions of the Company's Stock Option Plan and Stock Option Agreement, including vesting requirements which require your continued employment with the Company. No right to any stock is earned or accrued until such time that vesting occurs, nor does the grant confer any right to continue vesting or employment.

The Company will indemnify you to the maximum extent that its officers and employees are entitled to indemnification pursuant to the Company's Certificate of Incorporation and bylaws for any acts or omissions by reason of being an officer or employee of the Company during your employment. At all times during your employment, the Company shall maintain in effect a directors and officers liability insurance policy with you as a covered officer,

If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below), you will receive: (i) continued payment of your base salary (less applicable tax withholdings) for twelve (12) months following such termination, with such amounts to be paid in accordance with the Company's normal payroll policies; *provided, however*, that any payments otherwise scheduled to be made prior to the effective date of the Release (namely, the date it can no longer be revoked) shall accrue and be paid in the first payroll date that follows such effective date with subsequent payments occurring on each subsequent Company payroll date; (ii) twelve (12) months of accelerated vesting on all outstanding Company stock options; and (iii) payment of pro-rata portion of the your annual bonus (less applicable tax withholdings) for the performance year in which your termination occurs, with such pro-rata portion calculated based upon the number of days that you were employed during such performance year divided by the total number of days in such performance year, payable as a lump sum payment on the Release effective date (namely, the date it can no longer be revoked); and (iv) reimbursement for premiums paid for continued health benefits for you (and any eligible dependents) under the Company's health plans until the earlier of (A) twelve (12) months following your termination date or (B) the date upon which you and your eligible dependents become covered under similar plans; *provided, however*, that you validly elect to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. Reimbursements for health premiums will be made as soon as administratively practicable following approval of the reimbursement (or, if later, following the date you are first entitled to such reimbursements under this paragraph) and to the extent that such amounts are taxable not later than the end of the calendar year in which the expense was incurred.

If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below) and such termination occurs on or within twelve (12) months following a Change of Control (as defined below), then, you will also receive accelerated vesting as to 100% of any then non-exercisable option shares under any of your option grants.

The receipt of any benefits pursuant to the two prior paragraphs above will be subject to you signing and not revoking a separation agreement and release of claims substantially in the form attached to this offer letter as Exhibit A (the "Release"), *provided* that such release becomes effective no later than sixty (60) days following your termination date or such earlier date required by the Release (such deadline, the "Release Deadline"). If the Release does not become effective

by the Release Deadline, you will forfeit any rights to severance or benefits under this letter, and in no event will severance payments or benefits be paid or provided until the Release actually becomes effective. In the event your termination occurs at a time during the calendar year where the Release could become effective in the calendar year following the calendar year in which your termination occurs, then any severance payments or benefits under this letter that would be considered Deferred Compensation Separation Benefits (as defined on Exhibit B hereto) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (i) the Release Deadline, (ii) such time as required by the payment schedule applicable to each payment or benefit as set forth in Exhibit B, or (iii) such time as required by this paragraph.

For the purposes of this offer letter, "Involuntary Termination" means (i) your involuntary discharge by the Company for reasons other than Cause (as defined below); or (ii) your voluntary resignation within ninety (90) days following the end of the Cure Period (as defined below) as a result of the occurrence of any of the following without your consent: (a) a material diminution in your authority, duties or responsibilities; (b) a material breach of this letter agreement by the Company; (c) a material diminution in your base compensation (other than a reduction generally applicable to executive officers of the Company implemented for expense management purposes) or (d) a requirement for Employee to relocate to an office that is more than fifty (50) miles from the location of the Company's principal Offices at the time of such relocation, provided, however, that you must provide written notice to the Company of the condition that could constitute an "Involuntary Termination" event pursuant to the provisions of section (ii) of this paragraph within ninety (90) days of the initial existence of such condition and such condition must not have been remedied by the Company within thirty (30) days (the "Cure Period") of such written notice.

"Change of Control" means the occurrence of any of the following events: (i) any consolidation or merger of the Company with or into any other corporation or other entity or person, or any other corporate reorganization, in which the stockholders of the Company immediately prior to such consolidation, merger or reorganization, own less than fifty percent (50%) of the voting power of the surviving entity (or if the surviving entity is a wholly-owned subsidiary, its parent) immediately after such consolidation, merger or reorganization; (ii) a transaction or series of related transactions to which the Company is a party or a tender offer in which in excess of fifty percent (50%) of the Company's voting power is transferred; or (iii) a sale, lease conveyance or other disposition of all or substantially all of the assets of the Company that occurs over a period of not more than twelve (12) months. Notwithstanding the foregoing, in no event shall (A) an initial public offering of Common Stock pursuant to a registration statement filed with the Securities and Exchange Commission; (B) any equity financing (including the issuance of convertible debt) of the Company in a single transaction or a series of transactions; or (C) a transaction whose primary purpose is to change the state of the Company's incorporation and/or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities before such transaction constitute a Change of Control for purposes of this offer letter.

"Cause" means (i) an unauthorized use or disclosure of the Company's confidential information or trade secrets, which use or disclosure causes material harm to the Company; (ii) a deliberate material failure in the performance of your duties as Chief Medical Officer or any other duties as pertaining to employees of the Company generally, which is not cured within fifteen (15)

---

days after receiving written notification of such failure from the Board of Directors or the Chief Executive Officer; (iii) conviction of, or pleas of “guilty” or “no contest” to, a felony (other than one related to vehicular or vicarious liability) under the laws of the United States or any state thereof; (iv) gross misconduct, which is not cured within fifteen (15) days after receiving written notification of such misconduct from the Board of Directors or the Chief Executive Officer; or (v) a continued failure to perform assigned duties customarily performed by a Chief Medical Officer of a corporation of similar size, which is not cured within fifteen (15) days after receiving written notification of such failure from the Board of Directors or the Chief Executive Officer.

The Company is excited about your joining and looks forward to a beneficial and productive relationship. Nevertheless, you should be aware that your employment with the Company is for no specified period and constitutes at-will employment. As a result, you are free to resign at any time, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice. We request that, in the event of resignation, you give the Company at least two weeks’ notice. You should also note that the Company may modify job titles, salaries and benefits from time to time as it deems necessary.

The Company reserves the right to conduct background investigations and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon a clearance of such a background investigation and/or reference check, if any.

For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within (3) business days of your date of hire, or our employment relationship with you may be terminated.

We also ask that, if you have not already done so, you disclose to the Company any and all agreements relating to your prior employment that may affect your eligibility to be employed by the Company or limit the manner in which you may be employed. It is the Company’s understanding that any such agreements will not prevent you from performing the duties of your position and you represent that such is the case. Moreover, you agree that, during the term of your employment with the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company without the prior written consent of the Chief Executive Officer; provided, however, that your continuing involvement with the American Society of Hematology/AMFDP National Advisory Committee/Robert Wood John Foundation shall not require further written consent. Similarly, you agree not to bring any third party confidential information to the Company, including that of your former employer, and that in performing your duties for the Company you will not in any way utilize any such information.

As a Company employee, you will be expected to abide by the Company’s rules and standards. Specifically, you will be required to sign an acknowledgment that you have read and that you understand the Company’s rules of conduct, which are included in the Company Handbook.



---

As a condition of your employment, you are also required to sign and comply with an At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement which requires, among other provisions, the assignment of patent rights to any invention made during your employment at the Company, and non-disclosure of Company proprietary information. In the event of any dispute or claim relating to or arising out of our employment relationship, you and the Company agree that (i) any and all disputes between you and the Company shall be fully and finally resolved by binding arbitration, (ii) you are waiving any and all rights to a jury trial but all court remedies will be available in arbitration, (iii) all disputes shall be resolved by a neutral arbitrator who shall issue a written opinion, (iv) the arbitration shall provide for adequate discovery, and (v) the Company shall pay all costs associated with arbitration fees. Please note that we must receive your signed Agreement before your first day of employment.

Notwithstanding anything to the contrary in this letter, any severance or other benefits to which you may become entitled to pursuant to this letter will be subject to the terms provided in Exhibit B hereto.

We would propose that your first day of employment will be on or around February 11, 2016, and we request that you inform us as soon as you can of your exact start date. This letter, along with any agreements relating to proprietary rights between you and the Company, set forth the terms of your employment with the Company and supersede any prior representations or agreements including, but not limited to, any representations made during your recruitment, interviews or pre-employment negotiations, whether written or oral. This letter, including, but not limited to, its at-will employment provision, may not be modified or amended except by a written agreement signed by the Chief Executive Officer of the Company and you. This offer of employment will terminate if it is not accepted, signed and returned by January 20, 2016.

We look forward to your favorable reply and to working with you at Sutro Biopharma.

*[signature page follows]*

To indicate your acceptance of the letter, please sign and date this letter in the space provided below and return it to me. A duplicate original is enclosed for your records.

Sincerely,

/s/ William J. Newell  
William J. Newell  
Chief Executive Officer

Agreed to and accepted:

Signature: /s/ Arturo Molina

Printed Name: Arturo Molina

Date: 1/20/16

Enclosures:

Duplicate Original Letter

Exhibit A: General Release of All Claims

Exhibit B: Section 409A Provisions

At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement

Sutro Biopharma Benefits Guide

**EXHIBIT A**

**GENERAL RELEASE OF ALL CLAIMS**

In consideration of the severance benefits to be provided to Arturo Molina by Sutro Biopharma, Inc. (the "Company"), pursuant to the terms of the letter you entered into with the Company dated as of November 17, 2015 (the "Agreement"), you, on your own behalf and on behalf of your heirs, executors, administrators, and assigns, hereby fully and forever release and discharge the Company and its directors, officers, employees, agents, successors, predecessors, subsidiaries, parent, stockholders, employee benefit plans and assigns (together called "the Releasees"), from all known and unknown claims and causes of action including, without limitation, any claims or causes of action arising out of or relating in any way to your employment with the Company, including the termination of that employment.

Eight days after you sign (and do not revoke) this General Release of All Claims ("Release"), provided that it is not signed earlier than your cessation of employment, you will be entitled to the severance benefits or change of control benefits set forth in the Agreement, subject to any other requirements set forth therein or on Exhibit B thereto, that are conditioned on this Release.

You understand and agree that this Release is a full and complete waiver of all claims, including (without limitation) claims to attorneys' fees or costs, claims of wrongful discharge, constructive discharge, breach of contract, breach of the covenant of good faith and fair dealing, harassment, retaliation, discrimination, violation of public policy, defamation, invasion of privacy, interference with a leave of absence, personal injury, fraud or emotional distress and any claims of discrimination or harassment based on sex, age, race, national origin, disability or any other basis under Title VII of the Civil Rights Act of 1964, the Fair Labor Standards Act, the Equal Pay Act of 1963, the Americans With Disabilities Act, the Age Discrimination in Employment Act of 1967 (ADEA), the California Labor Code, the California Fair Employment and Housing Act, the California Family Rights Act, the Family Medical Leave Act or any other federal or state law or regulation relating to employment or employment discrimination. You further understand and agree that this waiver includes all claims, known and unknown, to the greatest extent permitted by applicable law.

You also hereby agree that nothing contained in this Release shall constitute or be treated as an admission of liability or wrongdoing by the Releasees or you.

In addition, you hereby expressly waive any and all rights and benefits conferred upon you by the provisions of Section 1542 of the Civil Code of the State of California, which states as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

If any provision of this Release is found to be unenforceable, it shall not affect the enforceability of the remaining provisions and the court shall enforce all remaining provisions to the full extent permitted by law.

---

You agree to provide, at the Company's expense, including reimbursement of your time and/or the reasonable fees and expenses of your counsel, reasonable cooperation and complete and accurate information to the Company (voluntarily, without requiring a subpoena or other compulsion of law) in the event of litigation against the Company and/or its officers or directors. You also agree that you will not assist any person in bringing or pursuing any claim or action of any kind against the Company, unless pursuant to subpoena or other compulsion of law.

This Release constitutes the entire agreement between you and Releasees with regard to the subject matter of this Release. It supersedes any other agreements, representations or understandings, whether oral or written and whether express or implied, which relate to the subject matter of this Release except as otherwise set forth in the Agreement. However, this Release covers only those claims that arose prior to the execution of this Release. Execution of this Release does not bar any claim that arises hereafter, including (without limitation) a claim for breach of the Agreement.

You understand that you have the right to consult with an attorney before signing this Release. You have 21 days after receipt of this Release to review and consider this Release, discuss it with an attorney of your own choosing, and decide to execute it or not execute it. You also understand that you may revoke this Release during a period of seven days after you sign it and that this Release will not become effective for seven days after you sign it (and then only if you do not revoke it). In any event, this Release is not to be signed, and will not become effective, prior to your cessation of employment. In order to revoke this Release, within seven days after you execute this Release you must deliver to William Newell, at the Company, a letter stating that you are revoking it.

You understand that if you choose to revoke this Release within seven days after you sign it, you will not receive the severance benefits set forth in the Agreement that are conditioned on this Release and the Release will have no effect.

You agree not to disclose to others the terms of this Release, except that you may disclose such information to your spouse and to your attorney or accountant in order for such attorney or accountant to render services to you related to this Release.

---

You state that before signing this Release, you:

- Have read it,
- Understand it,
- Know that you are giving up important rights,
- Are aware of your right to consult an attorney before signing it, and
- Have signed it knowingly and voluntarily.

Date: 1/20/16

By: /s/ Arturo Molina  
Arturo Molina

TO BE SIGNED UPON CESSATION OF EMPLOYMENT

**EXHIBIT B**

**SECTION 409A**

- (a) Notwithstanding anything to the contrary in the letter, no Deferred Compensation Separation Benefits (as defined below) will become payable under the letter until you have a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any proposed or final regulations and guidance promulgated thereunder ("Section 409"). Further, if you are a "specified employee" within the meaning of Section 409A at the time of your termination (other than due to death), and the severance or other benefits payable to you, if any, pursuant to the letter, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits"), such Deferred Compensation Separation Payments that are otherwise payable within the first six (6) months following your termination of employment will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of your termination of employment (or such later date as is required to avoid the imposition of additional tax under Section 409A). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if you die following your termination but prior to the six (6) month anniversary of your termination (or any later delay date), then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of your death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the letter is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.
- (b) Any amount paid under the letter that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Compensation Separation Benefits for purposes of section (a) above.
- (c) Any amount paid under the letter that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit shall not constitute Deferred Compensation Separation Benefits for purposes of section (a) above. For purposes of this section (c), "Section 409A Limit" will mean the lesser of two (2) times: (i) your annualized compensation based upon the annual rate of pay paid to you during the Company's taxable year preceding the Company's taxable year of your termination of employment as determined under Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which your employment is terminated.
- (d) For purposes of Section 409A, any right to receive any installment payments pursuant to this letter will be treated as a right to receive a series of separate and distinct payments under Section 1.409A-2(b)(2)(iii) of the Treasury Regulations.

---

(e) Reimbursement. To the extent that any taxable reimbursements of expenses or in-kind benefits are provided, they shall be made in accordance with Section 409A, including, but not limited to the following provisions:

- i) The amount of any such expense reimbursement or in-kind benefit provided during a service provider's taxable year shall not affect any expenses eligible for reimbursement in any other taxable year;
- ii) The reimbursement of the eligible expense shall be made no later than the last day of the service provider's taxable year that immediately follows the taxable year in which the expense was incurred; and
- iii) The right to any reimbursement shall not be subject to liquidation or exchange for another benefit or payment.

(e) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided under the letter will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. You and the Company agree to work together in good faith to consider amendments to the letter and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to you under Section 409A.

September 27, 2016

Sutro Biopharma, Inc.

Re: Amendments to Employment Offer Letter

To Whom It May Concern:

This letter (this "*Amendment*") serves to partially amend the original Offer Letter by and between Sutro Biopharma, Inc. (the "*Company*") and Arturo Molina, M.D. dated December 11, 2015 (the "*Offer Letter*"). This Amendment shall be effective as of the first date set forth above. In consideration for Mr. Molina's service to the Company:

1. The seventh and eighth paragraphs of the Offer Letter are superseded and replaced in their entirety with the following:

"If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below), you will receive: (i) continued payment of your base salary (less applicable tax withholdings) for twelve (12) months following such termination, such amounts to be paid in accordance with the Company's normal payroll policies; (ii) twelve (12) months of accelerated vesting on all outstanding Company stock options, including without limitation all stock options for which you have made an early exercise and that are still subject to vesting, and Company restricted stock; and (iii) reimbursement for premiums paid for continued health benefits for you (and any eligible dependents) under the Company's health plans until the earlier of (A) twelve (12) months or (B) the date upon which you and your eligible dependents become covered under similar plans; provided, however, that you validly elect to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"). Requests for such reimbursement must be submitted promptly following the date such expenses are incurred, but in no event later than forty-five (45) days from such date, in accordance with the Company's reimbursement policies, as in effect from time to time. Reimbursements will be made as soon as administratively practicable following approval of the reimbursement (or, if later, following the date you are first entitled to such reimbursements under this paragraph). Notwithstanding the foregoing, if the Company, in its sole discretion, determines that it cannot provide the foregoing reimbursement of COBRA premiums without potentially causing the Company to incur additional expense or being subject to an excise tax under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company instead shall provide you with a taxable monthly payment (a) in an amount equal to the monthly COBRA premium that you would be required to pay to continue the group health coverage in effect on your Separation (which amount shall be based on the premium for the first month of COBRA coverage), (b) which shall be made regardless of whether you elect COBRA continuation coverage and (c) which shall commence on the later of (i) the first day of the month following the month



in which your Separation occurs and (ii) the effective date of the Company's determination, and shall end on the earlier of (x) the effective date on which you become covered by a health, dental or vision insurance plan of a subsequent employer, and (y) the date upon which the Company has made twelve (12) monthly payments. You shall have no right to an additional gross-up payment to account for the fact that such COBRA premium amounts are paid on an after-tax basis.

If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below) and such termination occurs on or within twelve (12) months following a Change of Control (as defined below), then you will receive accelerated vesting as to 100% of any then unvested option shares under any of your option grants, including without limitation all stock options for which you have made an early exercise and that are still subject to vesting, and Company restricted stock.

Any amounts or benefits payable upon your Separation that are subject to, and not exempt from, Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") will be delayed if you are a "specified" employee under Section 409A until six months after such separation or, if earlier, your death. Delayed payments will be paid in a lump sum at the expiration of the delay period and any payments not delayed will be paid in accordance with their original schedule. No payment will be made upon a disability or terminal illness unless and until such condition qualifies as a "Disability" within the meaning of Section 409A or, earlier, upon a timely established permissible payment event under Section 409A, if any. Payments under this offer letter are intended to constitute separate payments for purposes of Section 409A to the maximum extent permitted.

For purposes of this section, "Separation" means a "separation from service," as defined in Treasury Regulation § 1.409A-1(h)."

2. The tenth paragraph of the Offer Letter is superseded and replaced in its entirety with the following:

For the purposes of this offer letter, "Involuntary Termination" means the termination by the Company of your employment with the Company other than for Cause (as defined below), or your voluntary termination of employment with the Company for Good Reason (as defined below).

"Good Reason" means:

(a) a material reduction in your level of duties, responsibility and/or scope of authority; or (b) a material reduction in your base salary (other than a reduction generally applicable to executive officers of the Company implemented for expense management purposes); or (c) a requirement for you to relocate to an office that is more than fifty (50) miles from the location of the Company's principal offices at the time of such relocation; provided, however, that (i) you

must provide written notice to the Company of the condition that could constitute a “Good Reason” event within ninety (90) days of the initial existence of such condition, (ii) you must give the Company an opportunity to cure such condition within thirty (30) days following delivery of such written notice and (iii) provided the Company has failed to cure such condition within such 30 day cure period, you must terminate your employment within ten (10) days following expiration of such cure period. For the avoidance of doubt, on and after a Change of Control (so long as the Company’s equity securities are not publicly traded on an established U.S. national securities market immediately prior to such Changes of Control), a material reduction in your level of responsibility and/or scope of authority shall not be deemed to occur if you retain principal management authority and responsibility for the business unit or division containing substantially all of the Company’s business acquired in the Change of Control.”

3. The eleventh paragraph of the Offer Letter is superseded and replaced in its entirety with the following:

“Change of Control” means the following:

(a) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then outstanding securities;

(b) the Company is party to a merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving or another entity) at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving or other entity outstanding immediately after such merger or consolidation; or

(c) the sale or disposition of all or substantially all of the Company’s assets (or consummation of any transaction having similar effect).

Notwithstanding the foregoing, a transaction will not be deemed a Change of Control unless the transaction qualifies as a change of control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.”

---

All other terms and conditions of the Offer Letter shall continue in full force and effect.

Please sign below to indicate acceptance of the terms of this Amendment.

Sincerely,

Sutro Biopharma, Inc.

/s/ William J. Newell

By: \_\_\_\_\_  
Its: \_\_\_\_\_

The undersigned has read and understood this Amendment and hereby acknowledges, accepts and agrees to the terms as set forth above.

/s/ Arturo Molina  
Arturo Molina, M.D.



November 12, 2010

Trevor Hallam, PhD  
[PRIVATE ADDRESS]

Dear Trevor,

We are very pleased to present this offer of employment to you for the position of Chief Scientific Officer at Sutro Biopharma (the "Company"). This letter sets forth the terms and conditions of our proposal for your employment. You may accept this offer by signing and returning a copy of it to me as provided below.

You will receive an annual salary of \$325,000.00 which will be paid semi-monthly in accordance with the Company's normal payroll procedures. Furthermore, in each calendar year during your employment with the Company, you will be eligible to receive an annual bonus dependent on performance objectives, which will be based on company objectives established by the Company's Board of Directors in their discretion. Your target bonus will be equal to thirty percent (30%) of your base salary. Your annual bonus will be determined by the achievement of Company objectives, as approved by the Company's Board of Directors. Your bonus payment will reflect the percent achievement of Company objectives factored by your 30% bonus target. Any bonus that you earn will be paid to you within two and one-half (2-1/2) months of the end of the calendar year in which it is earned, and shall be paid in cash, less any usual, required withholding. As an employee, you will also be eligible to receive certain employee benefits including health insurance, life insurance and disability insurance, with reasonable and customary coverages and deductibles or copayments. A summary of the Company's benefits is included with this letter.

You will also receive a \$50,000 signing bonus, subject to applicable taxes and withholdings, to be paid out on your first pay period following your start date of employment.

Subject to your continuing employment with the Company, the Company will provide you with the reasonable costs of temporary housing to the proximity of the Company (up to \$3,000 per month) until August 2012, or until you move your household, whichever comes first. You will receive a payment, for the actual cost of your duplicate housing, up to \$3,000 per month, following the lease or purchase of a residence in the San Francisco Bay Area. This payment will be made with your first pay check, in each calendar month, for as long as this subsidy is in effect, following your lease or purchase. Your housing subsidy will be applicable to either a lease or purchase, for the period of time you maintain your residency in PA, not to exceed August, 2012.

---

Additionally, subject to your continuing employment with the Company, we will cover the cost of your air travel for one (1) trip per month to Wayne, Pennsylvania, until August 2012, or until you move your household, whichever comes first. It is our expectation that much of your travel will be combined with normal business travel you will be asked to do on behalf of the Company.

Subject to your continuing employment with the Company, the Company will reimburse you for closing costs on the purchase of a home in the Bay Area and will pay or reimburse you for your reasonable costs of moving your household goods and automobiles from Wayne, Pennsylvania to the Bay Area, as well as air fare for you and your family from Wayne, Pennsylvania, to San Francisco for your final relocation trip.

In addition to the above salary and other consideration, you will be granted stock options to purchase a number of shares of the Company's common stock equal to 1.75% of the Company's capital stock calculated on a fully diluted basis following the completion of the anticipated Series C Preferred Stock financing (to be granted in two tranches consistent with the drawdown of the Series C financing). The price per share shall be equal to the fair market value per share of the Company's Common Stock on the grant dates as determined by the Company's Board of Directors. The vesting schedule for each of these grants will be over a period of time not to exceed four (4) years from your date of hire. For the initial grant, one-quarter will be vested 12 months after the commencement date of your employment and the remainder vesting monthly over the next 36 months in equal monthly installments. For the subsequent grant, vesting will be in equal monthly installments over a 48 month period.

This option grant shall be subject to the terms and conditions of the Company's Stock Option Plan and Stock Option Agreement, including vesting requirements which require your continued employment with the Company. No right to any stock is earned or accrued until such time that vesting occurs, nor does the grant confer any right to continue vesting or employment.

If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below), you will receive: (i) continued payment of your base salary (less applicable tax withholdings) for nine (9) months following such termination, such amounts to be paid in accordance with the Company's normal payroll policies; (ii) nine (9) months of accelerated vesting on all outstanding Company stock options; and (iii) reimbursement for premiums paid for continued health benefits for you (and any eligible dependents) under the Company's health plans until the earlier of (A) nine (9) months or (B) the date upon which you and your eligible dependents become covered under similar plans; provided, however, that you validly elect to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. Requests for such reimbursement must be submitted promptly following the date such expenses are incurred, but in no event later than forty-five (45) days from such date, in accordance with the Company's reimbursement policies, as in effect from time to time. Reimbursements will be made as soon as administratively practicable following approval of the reimbursement (or, if later, following the date you are first entitled to such reimbursements under this paragraph).

---

If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below) and such termination occurs on or within twelve (12) months following a Change of Control (as defined below), then, you will receive accelerated vesting as to 100% of any then non-exercisable option shares under any of your option grants. In addition, in such circumstances all the time periods in the preceding paragraph shall be increased from nine (9) months to 12 months.

The receipt of any benefits pursuant to the two prior paragraphs above will be subject to you signing and not revoking a separation agreement and release of claims substantially in the form attached to this offer letter as Exhibit A (the "Release"), provided that such release becomes effective no later than sixty (60) days following your termination date or such earlier date required by the Release (such deadline, the "Release Deadline"). If the Release does not become effective by the Release Deadline, you will forfeit any rights to severance or benefits under this letter, and in no event will severance payments or benefits be paid or provided until the Release actually becomes effective. In the event your termination occurs at a time during the calendar year where the Release could become effective in the calendar year following the calendar year in which your termination occurs, then any severance payments or benefits under this letter that would be considered Deferred Compensation Separation Benefits (as defined on Exhibit B hereto) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (i) the Release Deadline, (ii) such time as required by the payment schedule applicable to each payment or benefit as set forth in Exhibit B, or (iii) such time as required by this paragraph.

For the purposes of this offer letter, "Involuntary Termination" means (i) your involuntary discharge by the Company for reasons other than Cause (as defined below); or (ii) your voluntary resignation within ninety (90) days following the end of the Cure Period (as defined below) as a result of the occurrence of any of the following without your consent: (a) a material diminution in your authority, duties or responsibilities; or (b) a material diminution in your base compensation (other than a reduction generally applicable to executive officers of the Company implemented for expense management purposes); provided, however, that you must provide written notice to the Company of the condition that could constitute an "Involuntary Termination" event pursuant to the provisions of section (ii) of this paragraph within ninety (90) days of the initial existence of such condition and such condition must not have been remedied by the Company within thirty (30) days (the "Cure Period") of such written notice.

"Change of Control" means the occurrence of any of the following events: (i) the closing of a consolidation or merger of the Company with or into any other corporation in which the holders of the Company's outstanding shares immediately before such consolidation or merger do not, immediately after such consolidation or merger, retain stock representing a majority of the voting power of the surviving corporation of such consolidation or merger; or (ii) a sale of all or substantially all of the assets of the Company. Notwithstanding the foregoing, in no event shall (A) an initial public offering of Common Stock pursuant to a registration statement filed with the Securities and Exchange Commission; (B) any equity financing (including the issuance of convertible debt) of the Company in a single transaction or a series of transactions; or (C) a transaction whose primary purpose is to change the state of the Company's incorporation and/or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities before such transaction constitute a Change of Control for purposes of this offer letter.

---

“Cause” means (i) an unauthorized use or disclosure of the Company’s confidential information or trade secrets, which use or disclosure causes material harm to the Company; (ii) a deliberate material failure in the performance of your duties as Chief Scientific Officer or any other duties as pertaining to employees of the Company generally; (iii) conviction of, or pleas of “guilty” or “no contest” to, a felony under the laws of the United States or any state thereof; (iv) gross misconduct; or (v) a continued failure to perform assigned duties customarily performed by a Chief Scientific Officer of a corporation of similar size, after receiving written notification of such failure from the Board of Directors or the Chief Executive Officer. Termination for cause, if determined to be a continued failure of performing your duties as Chief Scientific Officer, as outlined in (v) under the definition of “cause”, will require both a verbal and written warning, with a 30 day period to correct deficiencies, prior to termination.

The Company is excited about your joining and looks forward to a beneficial and productive relationship. Nevertheless, you should be aware that your employment with the Company is for no specified period and constitutes at-will employment. As a result, you are free to resign at any time, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice. We request that, in the event of resignation, you give the Company at least two weeks notice. You should also note that the Company may modify job titles, salaries and benefits from time to time as it deems necessary.

The Company reserves the right to conduct background investigations and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon a clearance of such a background investigation and/or reference check, if any.

For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

We also ask that, if you have not already done so, you disclose to the Company any and all agreements relating to your prior employment that may affect your eligibility to be employed by the Company or limit the manner in which you may be employed. It is the Company’s understanding that any such agreements will not prevent you from performing the duties of your position and you represent that such is the case. Moreover, you agree that, during the term of your employment with the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company. Similarly, you agree not to bring any third party confidential information to the Company, including that of your former employer, and that in performing your duties for the Company you will not in any way utilize any such information.

---

As a Company employee, you will be expected to abide by the Company's rules and standards. Specifically, you will be required to sign an acknowledgment that you have read and that you understand the Company's rules of conduct, which are included in the Company Handbook.

As a condition of your employment, you are also required to sign and comply with an At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement which requires, among other provisions, the assignment of patent rights to any invention made during your employment at the Company, and non-disclosure of Company proprietary information. In the event of any dispute or claim relating to or arising out of our employment relationship, you and the Company agree that (i) any and all disputes between you and the Company shall be fully and finally resolved by binding arbitration, (ii) you are waiving any and all rights to a jury trial but all court remedies will be available in arbitration, (iii) all disputes shall be resolved by a neutral arbitrator who shall issue a written opinion, (iv) the arbitration shall provide for adequate discovery, and (v) the Company shall pay all but the first \$125 of the arbitration fees. Please note that we must receive your signed Agreement before your first day of employment.

Notwithstanding anything to the contrary in this letter, any severance or other benefits to which you may become entitled to pursuant to this letter will be subject to the terms provided in Exhibit B hereto.

We would propose that your first day of employment will be on December 1, 2010. This letter, along with any agreements relating to proprietary rights between you and the Company, set forth the terms of your employment with the Company and supersede any prior representations or agreements including, but not limited to, any representations made during your recruitment, interviews or pre-employment negotiations, whether written or oral. This letter, including, but not limited to, its at-will employment provision, may not be modified or amended except by a written agreement signed by the Chief Executive Officer of the Company and you. This offer of employment will terminate if it is not accepted, signed and returned by November 16, 2010.



---

We look forward to your favorable reply and to working with you at Sutro Biopharma.

To indicate your acceptance of the letter, please sign and date this letter in the space provided below and return it to me. A duplicate original is enclosed for your records.

Sincerely,

/s/ William J. Newell  
William J. Newell  
Chief Executive Officer

Agreed to and accepted:

Signature: /s/ Trevor J. Hallam

Printed Name: Trevor J. Hallam

Date: 11/15/2010

Enclosures:

Duplicate Original Letter

Exhibit A: General Release of All Claims

Exhibit B: Section 409A Provisions

At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement

Sutro Biopharma 2010 Benefits Guide

---

**EXHIBIT A**

**GENERAL RELEASE OF ALL CLAIMS**

In consideration of the severance benefits to be provided to Trevor Hallam by Sutro Biopharma, Inc. (the "Company"), pursuant to the terms of the letter you entered into with the Company dated as of [\_\_\_\_\_], 2010 (the "Agreement"), you, on your own behalf and on behalf of your heirs, executors, administrators, and assigns, hereby fully and forever release and discharge the Company and its directors, officers, employees, agents, successors, predecessors, subsidiaries, parent, stockholders, employee benefit plans and assigns (together called "the Releasees"), from all known and unknown claims and causes of action including, without limitation, any claims or causes of action arising out of or relating in any way to your employment with the Company, including the termination of that employment.

Eight days after you sign (and do not revoke) this General Release of All Claims ("Release"), provided that it is not signed earlier than your cessation of employment, you will be entitled to the severance benefits or change of control benefits set forth in the Agreement, subject to any other requirements set forth therein or on Exhibit B thereto, that are conditioned on this Release.

You understand and agree that this Release is a full and complete waiver of all claims, including (without limitation) claims to attorneys' fees or costs, claims of wrongful discharge, constructive discharge, breach of contract, breach of the covenant of good faith and fair dealing, harassment, retaliation, discrimination, violation of public policy, defamation, invasion of privacy, interference with a leave of absence, personal injury, fraud or emotional distress and any claims of discrimination or harassment based on sex, age, race, national origin, disability or any other basis under Title VII of the Civil Rights Act of 1964, the Fair Labor Standards Act, the Equal Pay Act of 1963, the Americans With Disabilities Act, the Age Discrimination in Employment Act of 1967 (ADEA), the *California Labor Code*, the California Fair Employment and Housing Act, the California Family Rights Act, the Family Medical Leave Act or any other federal or state law or regulation relating to employment or employment discrimination. You further understand and agree that this waiver includes all claims, known and unknown, to the greatest extent permitted by applicable law.

You also hereby agree that nothing contained in this Release shall constitute or be treated as an admission of liability or wrongdoing by the Releasees or you.

In addition, you hereby expressly waive any and all rights and benefits conferred upon you by the provisions of Section 1542 of the *Civil Code of the State of California*, which states as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

---

If any provision of this Release is found to be unenforceable, it shall not affect the enforceability of the remaining provisions and the court shall enforce all remaining provisions to the full extent permitted by law.

You agree to provide, at the Company's expense, including reimbursement of your time and/or the reasonable fees and expenses of your counsel, reasonable cooperation and complete and accurate information to the Company (voluntarily, without requiring a subpoena or other compulsion of law) in the event of litigation against the Company and/or its officers or directors. You also agree that you will not assist any person in bringing or pursuing any claim or action of any kind against the Company, unless pursuant to subpoena or other compulsion of law.

This Release constitutes the entire agreement between you and Releasees with regard to the subject matter of this Release. It supersedes any other agreements, representations or understandings, whether oral or written and whether express or implied, which relate to the subject matter of this Release except as otherwise set forth in the Agreement. However, this Release covers only those claims that arose prior to the execution of this Release. Execution of this Release does not bar any claim that arises hereafter, including (without limitation) a claim for breach of the Agreement.

You understand that you have the right to consult with an attorney before signing this Release. You have 21 days after receipt of this Release to review and consider this Release, discuss it with an attorney of your own choosing, and decide to execute it or not execute it. You also understand that you may revoke this Release during a period of seven days after you sign it and that this Release will not become effective for seven days after you sign it (and then only if you do not revoke it). In any event, this Release is not to be signed, and will not become effective, prior to your cessation of employment. In order to revoke this Release, within seven days after you execute this Release you must deliver to \_\_\_\_\_ at the Company a letter stating that you are revoking it.

You understand that if you choose to revoke this Release within seven days after you sign it, you will not receive the severance benefits set forth in the Agreement that are conditioned on this Release and the Release will have no effect.

You agree not to disclose to others the terms of this Release, except that you may disclose such information to your spouse and to your attorney or accountant in order for such attorney or accountant to render services to you related to this Release.

---

You state that before signing this Release, you:

- Have read it,
- Understand it,
- Know that you are giving up important rights,
- Are aware of your right to consult an attorney before signing it, and
- Have signed it knowingly and voluntarily.

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Trevor Hallam

TO BE SIGNED UPON CESSATION OF EMPLOYMENT

**EXHIBIT B**

**SECTION 409A**

(a) Notwithstanding anything to the contrary in the letter, no Deferred Compensation Separation Benefits (as defined below) will become payable under the letter until you have a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any proposed or final regulations and guidance promulgated thereunder ("Section 409"). Further, if you are a "specified employee" within the meaning of Section 409A at the time of your termination (other than due to death), and the severance or other benefits payable to you, if any, pursuant to the letter, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits"), such Deferred Compensation Separation Payments that are otherwise payable within the first six (6) months following your termination of employment will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of your termination of employment (or such later date as is required to avoid the imposition of additional tax under Section 409A). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if you die following your termination but prior to the six (6) month anniversary of your termination (or any later delay date), then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of your death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the letter is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(b) Any amount paid under the letter that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Compensation Separation Benefits for purposes of section (a) above.

(c) Any amount paid under the letter that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit shall not constitute Deferred Compensation Separation Benefits for purposes of section (a) above. For purposes of this section (c), "Section 409A Limit" will mean the lesser of two (2) times: (i) your annualized compensation based upon the annual rate of pay paid to you during the Company's taxable year preceding the Company's taxable year of your termination of employment as determined under Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which your employment is terminated.

---

(d) Reimbursement. To the extent that any taxable reimbursements of expenses or in-kind benefits are provided, they shall be made in accordance with Section 409A, including, but not limited to the following provisions:

- i) The amount of any such expense reimbursement or in-kind benefit provided during a service provider's taxable year shall not affect any expenses eligible for reimbursement in any other taxable year;
- ii) The reimbursement of the eligible expense shall be made no later than the last day of the service provider's taxable year that immediately follows the taxable year in which the expense was incurred; and
- iii) The right to any reimbursement shall not be subject to liquidation or exchange for another benefit or payment.

(e) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided under the letter will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. You and the Company agree to work together in good faith to consider amendments to the letter and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to you under Section 409A.

September 27, 2016

Sutro Biopharma, Inc.

Re: Amendments to Employment Offer Letter

To Whom It May Concern:

This letter (this "**Amendment**") serves to partially amend the original Offer Letter by and between Sutro Biopharma, Inc. (the "**Company**") and Trevor Hallam, PhD dated November 12, 2010 (the "**Offer Letter**"). This Amendment shall be effective as of the first date set forth above. In consideration for Mr. Hallam's service to the Company:

1. The ninth and tenth paragraphs of the Offer Letter are superseded and replaced in their entirety with the following:

"If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below), you will receive: (i) continued payment of your base salary (less applicable tax withholdings) for twelve (12) months following such termination, such amounts to be paid in accordance with the Company's normal payroll policies; (ii) twelve (12) months of accelerated vesting on all outstanding Company stock options, including without limitation all stock options for which you have made an early exercise and that are still subject to vesting, and Company restricted stock; and (iii) reimbursement for premiums paid for continued health benefits for you (and any eligible dependents) under the Company's health plans until the earlier of (A) twelve (12) months or (B) the date upon which you and your eligible dependents become covered under similar plans; provided, however, that you validly elect to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"). Requests for such reimbursement must be submitted promptly following the date such expenses are incurred, but in no event later than forty-five (45) days from such date, in accordance with the Company's reimbursement policies, as in effect from time to time. Reimbursements will be made as soon as administratively practicable following approval of the reimbursement (or, if later, following the date you are first entitled to such reimbursements under this paragraph). Notwithstanding the foregoing, if the Company, in its sole discretion, determines that it cannot provide the foregoing reimbursement of COBRA premiums without potentially causing the Company to incur additional expense or being subject to an excise tax under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company instead shall provide you with a taxable monthly payment (a) in an amount equal to the monthly COBRA premium that you would be required to pay to continue the group health coverage in effect on your Separation (which amount shall be based on the premium for the first month of COBRA coverage), (b) which shall be made regardless of whether you elect COBRA continuation coverage and (c) which shall commence on the later of (i) the first day of the month following the month

in which your Separation occurs and (ii) the effective date of the Company's determination, and shall end on the earlier of (x) the effective date on which you become covered by a health, dental or vision insurance plan of a subsequent employer, and (y) the date upon which the Company has made twelve (12) monthly payments. You shall have no right to an additional gross-up payment to account for the fact that such COBRA premium amounts are paid on an after-tax basis.

If your employment with the Company is terminated by the Company due to an Involuntary Termination (as defined below) and such termination occurs on or within twelve (12) months following a Change of Control (as defined below), then you will receive accelerated vesting as to 100% of any then unvested option shares under any of your option grants, including without limitation all stock options for which you have made an early exercise and that are still subject to vesting, and Company restricted stock.

Any amounts or benefits payable upon your Separation that are subject to, and not exempt from, Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") will be delayed if you are a "specified" employee under Section 409A until six months after such separation or, if earlier, your death. Delayed payments will be paid in a lump sum at the expiration of the delay period and any payments not delayed will be paid in accordance with their original schedule. No payment will be made upon a disability or terminal illness unless and until such condition qualifies as a "Disability" within the meaning of Section 409A or, earlier, upon a timely established permissible payment event under Section 409A, if any. Payments under this offer letter are intended to constitute separate payments for purposes of Section 409A to the maximum extent permitted.

For purposes of this section, "Separation" means a "separation from service," as defined in Treasury Regulation § 1.409A-1(h)."

2. The twelfth paragraph of the Offer Letter is superseded and replaced in its entirety with the following:

For the purposes of this offer letter, "Involuntary Termination" means the termination by the Company of your employment with the Company other than for Cause (as defined below), or your voluntary termination of employment with the Company for Good Reason (as defined below).

"Good Reason" means:

(a) a material reduction in your level of duties, responsibility and/or scope of authority; or (b) a material reduction in your base salary (other than a reduction generally applicable to executive officers of the Company implemented for expense management purposes); or (c) a requirement for you to relocate to an office that is more than fifty (50) miles from the location of the Company's principal offices at the time of such relocation; provided, however, that (i) you



must provide written notice to the Company of the condition that could constitute a “Good Reason” event within ninety (90) days of the initial existence of such condition, (ii) you must give the Company an opportunity to cure such condition within thirty (30) days following delivery of such written notice and (iii) provided the Company has failed to cure such condition within such 30 day cure period, you must terminate your employment within ten (10) days following expiration of such cure period. For the avoidance of doubt, on and after a Change of Control (so long as the Company’s equity securities are not publicly traded on an established U.S. national securities market immediately prior to such Changes of Control), a material reduction in your level of responsibility and/or scope of authority shall not be deemed to occur if you retain principal management authority and responsibility for the business unit or division containing substantially all of the Company’s business acquired in the Change of Control.”

3. The thirteenth paragraph of the Offer Letter is superseded and replaced in its entirety with the following:

“Change of Control” means the following:

(a) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the *Exchange Act*)), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company’s then outstanding securities;

(b) the Company is party to a merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving or another entity) at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving or other entity outstanding immediately after such merger or consolidation; or

(c) the sale or disposition of all or substantially all of the Company’s assets (or consummation of any transaction having similar effect).

Notwithstanding the foregoing, a transaction will not be deemed a Change of Control unless the transaction qualifies as a change of control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.”

All other terms and conditions of the Offer Letter shall continue in full force and effect.

---

Please sign below to indicate acceptance of the terms of this Amendment.

Sincerely,

Sutro Biopharma, Inc.

/s/ William J. Newell

By: \_\_\_\_\_

Its: \_\_\_\_\_

The undersigned has read and understood this Amendment and hereby acknowledges, accepts and agrees to the terms as set forth above.

/s/ Trevor Hallam  
Trevor Hallam, PhD

**EDGEWATER BUSINESS PARK****LEASE**

This Lease (the "**Lease**"), dated as of the date set forth in Section 1 of the Summary of Basic Lease Information (the "**Summary**"), below, is made by and between HCP, INC., a Maryland corporation ("**Landlord**"), and SUTRO BIOPHARMA, INC., a Delaware corporation ("**Tenant**").

**SUMMARY OF BASIC LEASE INFORMATION**

TERMS OF LEASE	DESCRIPTION
1. Date:	May 18, 2016
2. Premises ( <u>Article 1</u> ).	
2.1 Building:	That certain building containing approximately 39,487 rentable square feet of space (" <b>RSF</b> ") located at:  310 Utah Avenue South San Francisco, California 94080
2.2 Premises:	Approximately 24,544 RSF comprising a portion of the Building, as further set forth in <u>Exhibit A</u> to the Lease.
3. Lease Term ( <u>Article 2</u> ).	
3.1 Length of Term:	Five (5) years.
3.2 Lease Commencement Date:	December 1, 2016.
3.3 Lease Expiration Date:	November 30, 2021.
4. Base Rent ( <u>Article 3</u> ):	

<u>Date</u>	<u>Annualized Base Rent</u>	<u>Monthly Installment of Base Rent</u>	<u>Monthly Base Rent per RSF</u>
December 1, 2016 - November 30, 2017	\$1,281,196.80	\$106,766.40	\$ 4.35
December 1, 2017 - November 30, 2018	\$1,325,376.00	\$110,448.00	\$ 4.50
December 1, 2018 - November 30, 2019	\$1,372,500.48	\$114,375.04	\$ 4.66
December 1, 2019 - November 30, 2020	\$1,419,624.96	\$118,302.08	\$ 4.82
December 1, 2020 - November 30, 2021	\$1,469,694.72	\$122,474.56	\$ 4.99

- 
5. Tenant Improvement Allowance  
**(Exhibit B)** \$245,440.00.
6. Tenant's Share  
**(Article 4):** 62.16%.
7. Permitted Use  
**(Article 5):** The Premises shall be used only for general office, research and development (including vivarium use), engineering, laboratory, assembly, shipping, receiving, storage and/or warehouse uses, including, but not limited to, administrative offices and other lawful uses reasonably related to or incidental to such specified uses, all (i) consistent with first class life sciences projects in South San Francisco, California ("**First Class Life Sciences Projects**"), and (ii) in compliance with, and subject to, applicable laws and the terms of this Lease.
8. Amount of Security Deposit  
**(Article 21):** \$244,949.12.
9. Parking  
**(Article 28):** 2.8 unreserved parking spaces for every 1,000 RSF of the Premises, subject to the terms of **Article 28** of the Lease.
10. Address of Tenant  
**(Section 29.18):** Sutro Biopharma, Inc.  
310 Utah Avenue, Suite 150  
South San Francisco, CA 94080  
Attention: Chief Financial Officer
11. Address of Landlord  
**(Section 29.18):** See Section 29.18 of the Lease.
12. Brokers  
**(Section 29.24):** Kidder Mathews  
and  
CBRE, Inc.

## 1. PREMISES, BUILDING, PROJECT, AND COMMON AREAS.

### 1.1 Premises, Building, Project and Common Areas

1.1.1 **The Premises.** Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth in Section 2.2 of the Summary (the “Premises”). The outline of the Premises is set forth in Exhibit A attached hereto. The outline of the “Building” and the “Project,” as those terms are defined in Section 1.1.2 below, are further depicted on the Site Plan attached hereto as Exhibit A. The parties hereto agree that the lease of the Premises is upon and subject to the terms, covenants and conditions herein set forth, and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of such terms, covenants and conditions by it to be kept and performed. The parties hereto hereby acknowledge that the purpose of Exhibit A is to show the approximate location of the Premises only, and such Exhibit is not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the precise area thereof or the specific location of the “Common Areas,” as that term is defined in Section 1.1.3, below, or the elements thereof or of the accessways to the Premises or the “Project,” as that term is defined in Section 1.1.2, below, and that the square footage of the Premises shall be as set forth in Section 2.1 of the Summary of Basic Lease Information. The parties hereto further acknowledge that Tenant has been occupying the Premises pursuant to the terms of an existing lease for the Premises which is scheduled to terminate immediately prior to the Lease Commencement Date (the “Existing Lease”), and therefore, except as specifically set forth in this Lease and the Tenant Work Letter attached hereto as Exhibit B (the “Tenant Work Letter”), Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises and Tenant shall continue to accept the Premises in its “as-is” condition and Landlord shall have no obligation to “deliver” possession of the Premises to Tenant. Similarly, Tenant shall have no obligation to “surrender” the Premises upon the expiration of the Existing Lease or remove any of its property or restore any of its alterations under the Existing Lease upon the expiration date thereof. Notwithstanding anything to the contrary herein, if the Existing Lease terminates for any reason other than Tenant’s default prior to the scheduled expiration date thereof, this Lease shall terminate concurrently therewith. Tenant also acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises, the Building or the Project or with respect to the suitability of any of the foregoing for the conduct of Tenant’s business, except as specifically set forth in this Lease. For purposes of Section 1938 of the California Civil Code, Landlord hereby discloses to Tenant, and Tenant hereby acknowledges, that the Building and Premises have not undergone inspection by a Certified Access Specialist (CASp). Provided Tenant continues to utilize existing entrances for required means of egress from the Building, Landlord will be responsible for making modifications to the exterior of the Building, the existing Building entrances, and all exterior Common Areas (including required striping and handicapped spaces in the parking areas) as required to cause such areas to be in compliance with ADA and parking requirements, to the extent required to allow the legal occupancy of the Premises or completion of any proposed Alterations by Tenant. If changes to the existing Building entrances, or any exterior Common Areas (including required striping and handicapped spaces in the parking areas) are required by applicable laws based on Tenant making changes to the exiting configuration of the Building as of the date of this Lease, then Landlord and Tenant shall each bear fifty percent (50%) of such costs.

1.1.2 **The Building and The Project.** The Premises constitutes the space set forth in Section 2.1 of the Summary (the “Building”). The Building is part of an office/laboratory project currently known as “Edgewater Business Park.” The term “Project,” as used in this Lease, shall mean (i) the Building and the Common Areas, (ii) the land (which is improved with landscaping, parking facilities and other improvements) upon which the Building and the Common Areas are located, (iii) the other office/laboratory buildings located at Edgewater Business Park, and the land upon which such adjacent office/laboratory buildings are located, and (iv) at Landlord’s discretion, any additional real property, areas, land, buildings or other improvements added thereto outside of the Project (provided that any such additions do not increase Tenant’s obligations under this Lease).

1.1.3 **Common Areas.** Tenant shall have the non-exclusive right to use in common with other tenants in the Project, and subject to the rules and regulations referred to in Article 5 of this Lease, those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project, which shall include the shipping and receiving area in the Building (such areas, together with such other portions of the Project designated by Landlord, in its discretion, are collectively referred to herein as the “Common Areas”). Landlord shall maintain and operate the Common Areas, including all sprinkler and other systems serving the Common Areas, in a first class manner, and the use thereof shall be subject to such rules, regulations and

restrictions as Landlord may reasonably make from time to time. Landlord reserves the right to close temporarily, make alterations or additions to, or change the location of elements of the Project and the Common Areas, provided that in connection therewith Landlord will use commercially reasonable efforts to minimize any interference with Tenant's use of and access to the Premises and parking areas.

1.2 **Rentable Square Feet of Premises.** The rentable square footage of the Premises is hereby deemed to be as set forth in Section 2.2 of the Summary, and shall not be subject to measurement or adjustment during the Lease Term.

## 2. LEASE TERM; OPTION TERM.

2.1 **Lease Term.** The terms and provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease (the "**Lease Term**") shall be as set forth in Section 3.1 of the Summary, shall commence on the date set forth in Section 3.2 of the Summary (the "**Lease Commencement Date**"), and shall terminate on the date set forth in Section 3.3 of the Summary (the "**Lease Expiration Date**") unless this Lease is sooner terminated as hereinafter provided. For purposes of this Lease, the term "**Lease Year**" shall mean each consecutive twelve (12) month period during the Lease Term. At any time during the Lease Term, Landlord may deliver to Tenant a notice in the form as set forth in Exhibit C, attached hereto, as a confirmation only of the information set forth therein, which Tenant shall execute and return to Landlord within five (5) business days of receipt thereof.

### 2.2 **Option Terms.**

2.2.1 **Option Right.** Landlord hereby grants to the originally named Tenant herein ("**Original Tenant**"), and its "Permitted Assignees", as that term is defined in Section 14.8, below, one (1) option to extend the Lease Term for a period of five (5) years (the "**Option Term**"), which option shall be irrevocably exercised only by written notice delivered by Tenant to Landlord not more than twelve (12) months nor less than nine (9) months prior to the expiration of the initial Lease Term, provided that the following conditions (the "**Option Conditions**") are satisfied: (i) as of the date of delivery of such notice, Tenant is not in default under this Lease, after the expiration of any applicable notice and cure period; (ii) Tenant has not previously been in default under this Lease, after the expiration of any applicable notice and cure period, more than twice in the twelve (12) month period prior to the date of Tenant's attempted exercise; and (iii) the Lease then remains in full force and effect. Landlord may, at Landlord's option, exercised in Landlord's sole and absolute discretion, waive any of the Option Conditions in which case the option, if otherwise properly exercised by Tenant, shall remain in full force and effect. Upon the proper exercise of such option to extend, and provided that Tenant satisfies all of the Option Conditions (except those, if any, which are waived by Landlord), the Lease Term, as it applies to the Premises, shall be extended for a period of five (5) years. The rights contained in this Section 2.2 shall be personal to Original Tenant and any Permitted Assignees, and may be exercised by Original Tenant or such Permitted Assignees (and not by any other assignee, sublessee or other "Transferee," as that term is defined in Section 14.1 of this Lease, of Tenant's interest in this Lease).

2.2.2 **Option Rent.** The annual Rent payable by Tenant during the Option Term (the "**Option Rent**") shall be equal to the "Fair Rental Value," as that term is defined below, for the Premises as of the commencement date of the Option Term. The "**Fair Rental Value**," as used in this Lease, shall be equal to the annual rent per rentable square foot (including additional rent and considering any "base year" or "expense stop" applicable thereto), including all escalations, at which tenants (pursuant to leases consummated within the twelve (12) month period preceding the first day of the Option Term), are leasing non-sublease, non-encumbered, non-equity space which is not significantly greater or smaller in size than the subject space, with a comparable level of improvements (excluding any property that Tenant would be allowed to remove from the Premises at the termination of the Lease), for a comparable lease term, in an arm's length transaction, which comparable space is located in the "Comparable Buildings," as that term is defined in this Section 2.2.2, below (transactions satisfying the foregoing criteria shall be known as the "**Comparable Transactions**"), taking into consideration the following concessions (the "**Concessions**"): (a) rental abatement concessions, if any, being granted such tenants in connection with such comparable space; (b) tenant improvements or allowances provided or to be provided for such comparable space, and taking into account the value, if any, of the existing improvements in the subject space, such value to be based upon the age, condition, design, quality of finishes and layout of the improvements and the extent to which the same can be utilized by a general office/lab user other than Tenant; and (c) other reasonable monetary concessions being granted such tenants in connection with such comparable space; provided, however, that in calculating the Fair Rental Value,

no consideration shall be given to the fact that Landlord is or is not required to pay a real estate brokerage commission in connection with Tenant's exercise of its right to extend the Lease Term, or the fact that landlords are or are not paying real estate brokerage commissions in connection with such comparable space. The Concessions shall be reflected in the effective rental rate (which effective rental rate shall take into consideration the total dollar value of such Concessions as amortized on a straight-line basis over the applicable term of the Comparable Transaction (in which case such Concessions evidenced in the effective rental rate shall not be granted to Tenant)) payable by Tenant. The term "**Comparable Buildings**" shall mean the Building and those other life sciences buildings which are comparable to the Building in terms of age (based upon the date of completion of construction or major renovation of the building), quality of construction, level of services and amenities, size and appearance, and are located in South San Francisco, California and the surrounding commercial area.

**2.2.3 Determination of Option Rent.** In the event Tenant timely and appropriately exercises an option to extend the Lease Term, Landlord shall notify Tenant of Landlord's determination of the Option Rent within thirty (30) days thereafter. If Tenant, on or before the date which is ten (10) days following the date upon which Tenant receives Landlord's determination of the Option Rent, in good faith objects to Landlord's determination of the Option Rent, then Landlord and Tenant shall attempt to agree upon the Option Rent using their best good-faith efforts. If Landlord and Tenant fail to reach agreement within ten (10) days following Tenant's objection to the Option Rent (the "**Outside Agreement Date**"), then Tenant shall have the right to withdraw its exercise of the option by delivering written notice thereof to Landlord within five (5) days thereafter, in which event Tenant's right to extend the Lease pursuant to this Section 2.2 shall be of no further force or effect. If Tenant does not withdraw its exercise of the extension option, each party shall make a separate determination of the Option Rent, as the case may be, within ten (10) days after the Outside Agreement Date, and such determinations shall be submitted to arbitration in accordance with Sections 2.2.3.1 through 2.2.3.7, below. If Tenant fails to object to Landlord's determination of the Option Rent within the time period set forth herein, then Tenant shall be deemed to have accepted Landlord's determination of Option Rent.

**2.2.3.1** Landlord and Tenant shall each appoint one arbitrator who shall be a real estate appraiser who shall have been active over the five (5) year period ending on the date of such appointment in the appraisal of other class A life sciences buildings located in the South San Francisco market area. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Option Rent is the closest to the actual Option Rent, taking into account the requirements of Section 2.2.2 of this Lease, as determined by the arbitrators. Each such arbitrator shall be appointed within fifteen (15) days after the Outside Agreement Date. Landlord and Tenant may consult with their selected arbitrators prior to appointment and may select an arbitrator who is favorable to their respective positions. The arbitrators so selected by Landlord and Tenant shall be deemed "**Advocate Arbitrators**."

**2.2.3.2** The two (2) Advocate Arbitrators so appointed shall be specifically required pursuant to an engagement letter within ten (10) days of the date of the appointment of the last appointed Advocate Arbitrator to agree upon and appoint a third arbitrator ("**Neutral Arbitrator**") who shall be qualified under the same criteria set forth hereinabove for qualification of the two Advocate Arbitrators, except that neither the Landlord or Tenant or either parties' Advocate Arbitrator may, directly or indirectly, consult with the Neutral Arbitrator prior or subsequent to his or her appearance. The Neutral Arbitrator shall be retained via an engagement letter jointly prepared by Landlord's counsel and Tenant's counsel.

**2.2.3.3** The three arbitrators shall, within thirty (30) days of the appointment of the Neutral Arbitrator, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Option Rent, and shall notify Landlord and Tenant thereof.

**2.2.3.4** The decision of the majority of the three arbitrators shall be binding upon Landlord and Tenant.

**2.2.3.5** If either Landlord or Tenant fails to appoint an Advocate Arbitrator within fifteen (15) days after the Outside Agreement Date, then either party may petition the presiding judge of the Superior Court of San Mateo County to appoint such Advocate Arbitrator subject to the criteria in Section 2.2.3.1 of this Lease, or if he or she refuses to act, either party may petition any judge having jurisdiction over the parties to appoint such Advocate Arbitrator.

2.2.3.6 If the two (2) Advocate Arbitrators fail to agree upon and appoint the Neutral Arbitrator, then either party may petition the presiding judge of the Superior Court of San Mateo County to appoint the Neutral Arbitrator, subject to criteria in Section 2.2.3.1 of this Lease, or if he or she refuses to act, either party may petition any judge having jurisdiction over the parties to appoint such arbitrator.

2.2.3.7 The cost of the arbitration shall be paid by Landlord and Tenant equally.

2.2.3.8 In the event that the Option Rent shall not have been determined pursuant to the terms hereof prior to the commencement of the Option Term, Tenant shall be required to pay the Option Rent initially provided by Landlord to Tenant, and upon the final determination of the Option Rent, the payments made by Tenant shall be reconciled with the actual amounts of Option Rent due, and the appropriate party shall make any corresponding payment to the other party.

**3. BASE RENT.** Tenant shall pay, without prior notice or demand, to Landlord at the address set forth in this Lease, or, at Landlord's option, at such other place as Landlord may from time to time designate in writing, by a check for currency which, at the time of payment, is legal tender for private or public debts in the United States of America, base rent ("**Base Rent**") as set forth in Section 4 of the Summary, payable in equal monthly installments as set forth in Section 4 of the Summary in advance on or before the first day of each and every calendar month during the Lease Term, without any setoff or deduction whatsoever. The Base Rent for the first full month of the Lease Term which occurs after the expiration of any free rent period shall be paid at the time of Tenant's execution of this Lease. If any Rent payment date (including the Lease Commencement Date) falls on a day of the month other than the first day of such month or if any payment of Rent is for a period which is shorter than one month, the Rent for any fractional month shall accrue on a daily basis for the period from the date such payment is due to the end of such calendar month or to the end of the Lease Term at a rate per day which is equal to 1/365 of the applicable annual Rent. All other payments or adjustments required to be made under the terms of this Lease that require proration on a time basis shall be prorated on the same basis.

#### **4. ADDITIONAL RENT.**

##### **4.1 General Terms.**

4.1.1 **Direct Expenses; Additional Rent.** In addition to paying the Base Rent specified in Article 3 of this Lease, Tenant shall pay during the Lease Term "**Tenant's Share**" of the annual "**Direct Expenses**," as those terms are defined in Sections 4.2.6 and 4.2.2 of this Lease, respectively, allocable to the Building as described in Section 4.3. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the terms of this Lease, are hereinafter collectively referred to as the "**Additional Rent**", and the Base Rent and the Additional Rent are herein collectively referred to as "**Rent**." All amounts due under this Article 4 as Additional Rent shall be payable for the same periods and in the same manner as the Base Rent. Without limitation on other obligations of Tenant which survive the expiration of the Lease Term, the obligations of Tenant to pay the Additional Rent provided for in this Article 4 shall survive the expiration of the Lease Term.

4.1.2 **Triple Net Lease.** Landlord and Tenant acknowledge that, to the extent provided in this Lease, it is their intent and agreement that this Lease be a "**TRIPLE NET**" lease and that as such, the provisions contained in this Lease are intended to pass on to Tenant or reimburse Landlord for the costs and expenses reasonably associated with this Lease, the Building and the Project, and Tenant's operation therefrom to the extent provided in this Lease. To the extent such costs and expenses payable by Tenant cannot be charged directly to, and paid by, Tenant, such costs and expenses shall be paid by Landlord but reimbursed by Tenant as Additional Rent.

4.2 **Definitions of Key Terms Relating to Additional Rent.** As used in this Article 4, the following terms shall have the meanings hereinafter set forth:

4.2.1 Intentionally Deleted.

4.2.2 "**Direct Expenses**" shall mean "**Operating Expenses**" and "**Tax Expenses**."



4.2.3 “**Expense Year**” shall mean each calendar year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant’s Share of Direct Expenses shall be equitably adjusted for any Expense Year involved in any such change.

4.2.4 “**Operating Expenses**” shall mean all expenses, costs and amounts of every kind and nature which Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Project, or any portion thereof. Without limiting the generality of the foregoing, Operating Expenses shall specifically include any and all of the following: (i) the cost of supplying all utilities, the cost of operating, repairing and maintaining the utility, telephone, mechanical, sanitary, storm drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections and the cost of contesting any governmental enactments which are reasonably likely to increase Operating Expenses during the Lease Term, and the costs incurred in connection with a governmentally mandated transportation system management program or similar program; (iii) the cost of all insurance carried by Landlord in connection with the Project and Premises as reasonably determined by Landlord; (iv) the cost of landscaping, relamping, and all supplies, tools, equipment and materials used in the operation, repair and maintenance of the Project, or any portion thereof; (v) the cost of parking area operation, repair, restoration, and maintenance; (vi) management and/or incentive fees, consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Project; (vii) payments under any equipment rental agreements; (viii) subject to item (f), below, wages, salaries and other compensation and benefits, including taxes levied thereon, of all persons engaged in the operation, maintenance and security of the Project; (ix) costs under any easement pertaining to the sharing of costs by the Project; (x) operation, repair, maintenance and replacement of all systems and equipment and components thereof of the Project; (xi) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in Common Areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xii) amortization (including commercially reasonable interest on the unamortized cost) over such period of time as Landlord shall reasonably determine, of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof; (xiii) the cost of capital improvements or other costs incurred in connection with the Project (A) which are intended to effect economies in the operation or maintenance of the Project, or any portion thereof, or to reduce current or future Operating Expenses or to enhance the safety or security of the Project or its occupants, (B) which are required to comply with present or anticipated conservation programs, (C) which are replacements or modifications of nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition, or (D) which are required under any governmental law or regulation; provided, however, notwithstanding anything to the contrary herein, that any capital expenditure shall be amortized (including reasonable interest on the amortized cost) over the reasonable useful life of such capital item before being included in Operating Expenses; and (xiv) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute “Tax Expenses” as that term is defined in Section 4.2.5, below, and (xv) payments under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs by the Building, including, without limitation, any covenants, conditions and restrictions affecting the property, and reciprocal easement agreements affecting the property, any parking licenses, and any agreements with transit agencies affecting the Property (collectively, “**Underlying Documents**”). Notwithstanding the foregoing, for purposes of this Lease, Operating Expenses shall not, however, include:

(a) costs, including legal fees, space planners’ fees, advertising and promotional expenses (except as otherwise set forth above), and brokerage fees incurred in connection with the original construction or development, or original or future leasing of the Project, and costs, including permit, license and inspection costs, incurred with respect to the installation of tenant improvements made for new tenants initially occupying space in the Project after the Lease Commencement Date or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project (excluding, however, such costs relating to any common areas of the Project or parking facilities);

(b) except as set forth in items (xii), (xiii), and (xiv) above, depreciation, interest and principal payments on mortgages and other debt costs, if any, penalties and interest;

(c) costs for which the Landlord is reimbursed by any tenant or occupant of the Project or by insurance by its carrier or any tenant's carrier or by anyone else, electric power costs for which any tenant directly contracts with the local public service company and costs of utilities and services provided to other tenants that are not provided to Tenant;

(d) any bad debt loss, rent loss, or reserves for bad debts or rent loss or other reserves to the extent not used in the same year;

(e) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants;

(f) the wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-a-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall Operating Expenses for purposes of this Lease include wages and/or benefits attributable to personnel above the level of Project manager;

(g) amount paid as ground rental for the Project by the Landlord;

(h) except for a property management fee not to exceed three percent (3%) of gross revenues, overhead and profit increment paid to the Landlord, and any amounts paid to the Landlord or to subsidiaries or affiliates of the Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, first-class unaffiliated third parties on a competitive basis;

(i) any compensation paid to clerks, attendants or other persons in commercial concessions operated by the Landlord;

(j) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing engineering, janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project;

(k) all items and services for which Tenant or any other tenant in the Project reimburses Landlord or which Landlord provides selectively to one or more tenants (other than Tenant) without reimbursement;

(l) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(m) rent for any office space occupied by Project management personnel;

(n) costs arising from the gross negligence or willful misconduct of Landlord in connection with this Lease; and

(o) costs incurred to comply with laws relating to the removal or remediation of hazardous material (as defined under applicable law), and any costs of fines or penalties relating to the presence of hazardous material, in each case to the extent not brought into the Building or Premises by Tenant or any Tenant Parties;

(p) costs to correct any construction defect in the Project or to remedy any violation of a covenant, condition, restriction, underwriter's requirement or law that exists as of the Lease Commencement Date; and

(q) capital costs occasioned by casualties or condemnation.

#### 4.2.5 **Taxes.**

4.2.5.1 "**Tax Expenses**" shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature, whether general, special, ordinary or extraordinary (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof.

4.2.5.2 Tax Expenses shall include, without limitation: (i) Any tax on the rent, right to rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof; (ii) Any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax; (iii) Any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including, without limitation, any business or gross income tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof; and (iv) Any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises or the improvements thereon.

4.2.5.3 Any costs and expenses (including, without limitation, reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year such expenses are incurred. Tax refunds shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable, provided that in no event shall the amount to be refunded to Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year. If Tax Expenses for any period during the Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses. Notwithstanding anything to the contrary contained in this Section 4.2.5, there shall be excluded from Tax Expenses (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, (iii) any items paid by Tenant under Section 4.5 of this Lease, (iv) assessments in excess of the amount which would be payable if such assessment expense were paid in installments over the longest permitted term; (v) taxes imposed on land and improvements other than the Project; and (vi) tax increases resulting from the improvement of any of the Project for the sole use of other occupants.

4.2.6 "**Tenant's Share**" shall mean the percentage set forth in Section 6 of the Summary.

4.3 **Allocation of Direct Expenses.** The parties acknowledge that the Building is a part of a multi-building project and that the costs and expenses incurred in connection with the Project (i.e., the Direct Expenses) should be shared between the Building and the other buildings in the Project. Accordingly, as set forth in Section 4.2 above, Direct Expenses (which consist of Operating Expenses and Tax Expenses) are determined annually for the Project as a whole, and a portion of the Direct Expenses, which portion shall be determined by Landlord on an equitable basis, shall be allocated to the Building (as opposed to other buildings in the Project). Such portion of Direct Expenses allocated to the Building shall include all Direct Expenses attributable solely to the Building and a pro rata portion of the Direct Expenses attributable to the Project as a whole, and shall not include Direct Expenses attributable solely to other buildings in the Project.

4.4 **Calculation and Payment of Additional Rent.** Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, below, and as Additional Rent, Tenant's Share of Direct Expenses for each Expense Year.

4.4.1 **Statement of Actual Direct Expenses and Payment by Tenant.** Landlord shall give to Tenant within five (5) months following the end of each Expense Year (provided that Landlord agrees to utilize commercially reasonable efforts to deliver such Statement to Tenant as soon as practicable following the end of the each Expense Year), a statement (the "**Statement**") which shall state the Direct Expenses incurred or accrued for such preceding Expense Year, and which shall indicate the amount of Tenant's Share of Direct Expenses. Upon receipt of the Statement for each Expense Year commencing or ending during the Lease Term, Tenant shall pay, with its next installment of Base Rent due that is at least thirty (30) days thereafter, the full amount of Tenant's Share of Direct Expenses for such Expense Year, less the amounts, if any, paid during such Expense Year as "**Estimated Direct Expenses**," as that term is defined in Section 4.4.2, below, and if Tenant paid more as Estimated Direct Expenses than the actual Tenant's Share of Direct Expenses, Tenant shall receive a credit in the amount of Tenant's overpayment against Rent next due under this Lease. The failure of Landlord to timely furnish the Statement for any Expense Year shall not prejudice Landlord or Tenant from enforcing its rights under this Article 4. Even though the Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Direct Expenses for the Expense Year in which this Lease terminates, Tenant shall immediately pay to Landlord such amount, and if Tenant paid more as Estimated Direct Expenses than the actual Tenant's Share of Direct Expenses, Landlord shall, within thirty (30) days, deliver a check payable to Tenant in the amount of the overpayment. The provisions of this Section 4.4.1 shall survive the expiration or earlier termination of the Lease Term.

4.4.2 **Statement of Estimated Direct Expenses.** In addition, Landlord shall give Tenant a yearly expense estimate statement (the "**Estimate Statement**") which shall set forth Landlord's reasonable estimate (the "**Estimate**") of what the total amount of Direct Expenses for the then-current Expense Year shall be and the estimated Tenant's Share of Direct Expenses (the "**Estimated Direct Expenses**"). Landlord shall utilize commercially reasonable efforts to deliver such Estimate Statement within five (5) months following the end of each Expense Year. The failure of Landlord to timely furnish the Estimate Statement for any Expense Year shall not preclude Landlord from enforcing its rights to collect any Estimated Direct Expenses under this Article 4, nor shall Landlord be prohibited from revising any Estimate Statement or Estimated Direct Expenses theretofore delivered to the extent necessary. Thereafter, Tenant shall pay, with its next installment of Base Rent due that is at least thirty (30) days thereafter, a fraction of the Estimated Direct Expenses for the then-current Expense Year (reduced by any amounts paid pursuant to the last sentence of this Section 4.4.2). Such fraction shall have as its numerator the number of months which have elapsed in such current Expense Year, including the month of such payment, and twelve (12) as its denominator. Until a new Estimate Statement is furnished (which Landlord shall have the right to deliver to Tenant in accordance with the terms of this Section 4.4.2), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Direct Expenses set forth in the previous Estimate Statement delivered by Landlord to Tenant.

4.5 **Taxes and Other Charges for Which Tenant Is Directly Responsible** Tenant shall be liable for and shall pay ten (10) days before delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

4.6 **Landlord's Books and Records.** Within one hundred twenty (120) days after receipt by Tenant of a Statement, if Tenant disputes the amount of Additional Rent set forth in the Statement, a member of Tenant's finance department, or an independent certified public accountant (which accountant is a member of a nationally recognized accounting firm and is not working on a contingency fee basis) ("**Tenant's Accountant**"), designated and paid for by Tenant, may, after reasonable notice to Landlord and at reasonable times, inspect Landlord's records with respect to

the Statement at Landlord's offices, provided that there is no existing Event of Default and Tenant has paid all amounts required to be paid under the applicable Estimate Statement and Statement, as the case may be. In connection with such inspection, Tenant and Tenant's agents must agree in advance to follow Landlord's reasonable rules and procedures regarding inspections of Landlord's records, and shall execute a commercially reasonable confidentiality agreement regarding such inspection. Tenant's failure to dispute the amount of Additional Rent set forth in any Statement within one hundred twenty (120) days of Tenant's receipt of such Statement shall be deemed to be Tenant's approval of such Statement and Tenant, thereafter, waives the right or ability to dispute the amounts set forth in such Statement. If after such inspection, Tenant still disputes such Additional Rent, a determination as to the proper amount shall be made, at Tenant's expense, by an independent certified public accountant (the "**Accountant**") selected by Landlord and subject to Tenant's reasonable approval; provided that if such Accountant determines that Direct Expenses were overstated by more than five percent (5%), then the cost of the Accountant and the cost of such determination shall be paid for by Landlord, and Landlord shall reimburse Tenant for the cost of the Tenant's Accountant (provided that such cost shall be a reasonable market cost for such services). Tenant hereby acknowledges that Tenant's sole right to inspect Landlord's books and records and to contest the amount of Direct Expenses payable by Tenant shall be as set forth in this Section 4.6, and Tenant hereby waives any and all other rights pursuant to applicable law to inspect such books and records and/or to contest the amount of Direct Expenses payable by Tenant.

## **5. USE OF PREMISES.**

5.1 **Permitted Use.** Tenant shall use the Premises solely for the Permitted Use set forth in Section 7 of the Summary and Tenant shall not use or permit the Premises or the Project to be used for any other purpose or purposes whatsoever without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion.

5.2 **Prohibited Uses.** Tenant further covenants and agrees that Tenant shall not use or permit any person or persons to use, the Premises or any part thereof for any use or purpose in violation of the laws of the United States of America, the State of California, or the ordinances, regulations or requirements of the local municipal or county governing body or other lawful authorities having jurisdiction over the Project) including, without limitation, any such laws, ordinances, regulations or requirements relating to hazardous materials or substances, as those terms are defined by applicable laws now or hereafter in effect. Landlord shall have the right to impose reasonable, nondiscriminatory and customary rules and regulations regarding the use of the Project that do not unreasonably interfere with Tenant's use of the Premises, as reasonably deemed necessary by Landlord with respect to the orderly operation of the Project, and Tenant shall comply with such reasonable rules and regulations. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building, or injure or annoy them or use or allow the Premises to be used for any improper, unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall comply with, and Tenant's rights and obligations under the Lease and Tenant's use of the Premises shall be subject and subordinate to, all recorded easements, covenants, conditions, and restrictions now or hereafter affecting the Project, so long as the same do not unreasonably interfere with Tenant's use of the Premises or parking rights or materially increase Tenant's obligations or decrease Tenant's rights under this Lease.

### **5.3 Hazardous Materials.**

#### **5.3.1 Tenant's Obligations.**

5.3.1.1 **Prohibitions.** As a material inducement to Landlord to enter into this Lease with Tenant, Tenant has fully and accurately completed Landlord's Pre-Leasing Environmental Exposure Questionnaire (the "**Environmental Questionnaire**"), which is attached as Exhibit E. Tenant agrees that except for those chemicals or materials, and their respective quantities, specifically listed on the Environmental Questionnaire (as the same may be updated from time to time as provided below), neither Tenant nor Tenant's employees, contractors and subcontractors of any tier, entities with a contractual relationship with Tenant (other than Landlord), or any entity acting as an agent or sub-agent of Tenant (collectively, "**Tenant's Agents**") will produce, use, store or generate any "Hazardous Materials," as that term is defined below, on, under or about the Premises, nor cause any Hazardous Material to be brought upon, placed, stored, manufactured, generated, blended, handled, recycled, used or "Released," as that term is defined below, on, in, under or about the Premises. If any information provided to Landlord by Tenant on the Environmental Questionnaire, or otherwise relating to information concerning Hazardous Materials is

intentionally false, incomplete, or misleading in any material respect, the same shall be deemed a default by Tenant under this Lease. Upon Landlord's request, or in the event of any material change in Tenant's use of Hazardous Materials in the Premises, Tenant shall deliver to Landlord an updated Environmental Questionnaire at least once a year. Tenant shall notify Landlord prior to using any Hazardous Materials in the Premises not described on the initial Environmental Questionnaire, and, to the extent such use would, in Landlord's reasonable judgment, cause a material increase in the risk of liability compared to the uses previously allowed in the Premises, such additional use shall be subject to Landlord's prior consent, which may be withheld in Landlord's reasonable discretion. Tenant shall not install or permit Tenant's Agents to install any underground storage tank on the Premises. For purposes of this Lease, "**Hazardous Materials**" means all flammable explosives, petroleum and petroleum products, waste oil, radon, radioactive materials, toxic pollutants, asbestos, polychlorinated biphenyls ("**PCBs**"), medical waste, chemicals known to cause cancer or reproductive toxicity, pollutants, contaminants, hazardous wastes, toxic substances or related materials, including without limitation any chemical, element, compound, mixture, solution, substance, object, waste or any combination thereof, which is or may be hazardous to human health, safety or to the environment due to its radioactivity, ignitability, corrosiveness, reactivity, explosiveness, toxicity, carcinogenicity, infectiousness or other harmful or potentially harmful properties or effects, or defined as, regulated as or included in, the definition of "hazardous substances," "hazardous wastes," "hazardous materials," or "toxic substances" under any Environmental Laws. For purposes of this Lease, "**Release**" or "**Released**" or "**Releases**" shall mean any release, deposit, discharge, emission, leaking, spilling, seeping, migrating, injecting, pumping, pouring, emptying, escaping, dumping, disposing, or other movement of Hazardous Materials into the environment. Landlord acknowledges that Tenant will be installing and using fume hoods in the Premises and that emissions of Hazardous Materials into the air in compliance with all Environmental Laws shall not be considered Releases.

5.3.1.2 **Notices to Landlord.** Tenant shall notify Landlord in writing as soon as possible but in no event later than five (5) days after (i) the occurrence of any actual, alleged or threatened Release of any Hazardous Material in, on, under, from, about or in the vicinity of the Premises (whether past or present), regardless of the source or quantity of any such Release, or (ii) Tenant becomes aware of any regulatory actions, inquiries, inspections, investigations, directives, or any cleanup, compliance, enforcement or abatement proceedings (including any threatened or contemplated investigations or proceedings) relating to or potentially affecting the Premises, or (iii) Tenant becomes aware of any claims by any person or entity relating to any Hazardous Materials in, on, under, from, about or in the vicinity of the Premises, whether relating to damage, contribution, cost recovery, compensation, loss or injury. Collectively, the matters set forth in clauses (i), (ii) and (iii) above are hereinafter referred to as "**Hazardous Materials Claims**". Tenant shall promptly forward to Landlord copies of all orders, notices, permits, applications and other communications and reports in connection with any Hazardous Materials Claims. Additionally, Tenant shall promptly advise Landlord in writing of Tenant's discovery of any occurrence or condition on, in, under or about the Premises that could subject Tenant or Landlord to any liability, or restrictions on ownership, occupancy, transferability or use of the Premises under any "Environmental Laws," as that term is defined below. Tenant shall not enter into any legal proceeding or other action, settlement, consent decree or other compromise with respect to any Hazardous Materials Claims without first notifying Landlord of Tenant's intention to do so and affording Landlord the opportunity to join and participate, as a party if Landlord so elects, in such proceedings and in no event shall Tenant enter into any agreements which are binding on Landlord or the Premises without Landlord's prior written consent. Landlord shall have the right to appear at and participate in, any and all legal or other administrative proceedings concerning any Hazardous Materials Claim. For purposes of this Lease, "**Environmental Laws**" means all applicable present and future laws relating to the protection of human health, safety, wildlife or the environment, including, without limitation, (i) all requirements pertaining to reporting, licensing, permitting, investigation and/or remediation of emissions, discharges, Releases, or threatened Releases of Hazardous Materials, whether solid, liquid, or gaseous in nature, into the air, surface water, groundwater, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of Hazardous Materials; and (ii) all requirements pertaining to the health and safety of employees or the public. Environmental Laws include, but are not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 USC § 9601, et seq., the Hazardous Materials Transportation Authorization Act of 1994, 49 USC § 5101, et seq., the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, and Hazardous and Solid Waste Amendments of 1984, 42 USC § 6901, et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 USC § 1251, et seq., the Clean Air Act of 1966, 42 USC § 7401, et seq., the Toxic Substances Control Act of 1976, 15 USC § 2601, et seq., the Safe Drinking Water Act of 1974, 42 USC §§ 300f through 300j, the Occupational Safety and Health Act of 1970, as amended, 29 USC § 651 et seq., the Oil Pollution Act of 1990, 33 USC § 2701 et seq., the Emergency Planning and Community Right-To-Know Act of 1986, 42 USC § 11001 et seq.,

the National Environmental Policy Act of 1969, 42 USC § 4321 et seq., the Federal Insecticide, Fungicide and Rodenticide Act of 1947, 7 USC § 136 et seq., California Carpenter-Presley-Tanner Hazardous Substance Account Act, California Health & Safety Code §§ 25300 et seq., Hazardous Materials Release Response Plans and Inventory Act, California Health & Safety Code, §§ 25500 et seq., Underground Storage of Hazardous Substances provisions, California Health & Safety Code, §§ 25280 et seq., California Hazardous Waste Control Law, California Health & Safety Code, §§ 25100 et seq., and any other state or local law counterparts, as amended, as such applicable laws, are in effect as of the Lease Commencement Date, or thereafter adopted, published, or promulgated.

5.3.1.3 **Releases of Hazardous Materials.** If any Release of any Hazardous Material in, on, under, from or about the Premises shall occur at any time during the Lease by Tenant or Tenant's Agents, in addition to notifying Landlord as specified above, Tenant, at its own sole cost and expense, shall (i) immediately comply with any and all reporting requirements imposed pursuant to any and all Environmental Laws, (ii) provide a written certification to Landlord indicating that Tenant has complied with all applicable reporting requirements, (iii) take any and all necessary investigation, corrective and remedial action in accordance with any and all applicable Environmental Laws, utilizing an environmental consultant approved by Landlord, all in accordance with the provisions and requirements of this Section 5.3, including, without limitation, Section 5.3.4, and (iv) take any such additional investigative, remedial and corrective actions as Landlord shall in its reasonable discretion deem necessary such that the Premises are remediated to the condition existing prior to such Release.

#### 5.3.1.4 **Indemnification.**

5.3.1.4.1 **In General.** Without limiting in any way Tenant's obligations under any other provision of this Lease, Tenant shall be solely responsible for and shall protect, defend, indemnify and hold the Landlord Parties harmless from and against any and all claims, judgments, losses, damages, costs, expenses, penalties, enforcement actions, taxes, fines, remedial actions, liabilities (including, without limitation, actual attorneys' fees, litigation, arbitration and administrative proceeding costs, expert and consultant fees and laboratory costs) including, without limitation, consequential damages and sums paid in settlement of claims, which arise during or after the Lease Term, whether foreseeable or unforeseeable, that arise during or after the Lease Term in whole or in part, foreseeable or unforeseeable, directly or indirectly arising out of or attributable to the Release of Hazardous Materials in, on, under or about the Premises by Tenant or Tenant's Agents.

5.3.1.4.2 **Limitations.** Notwithstanding anything in Section 5.3.1.4, above, to the contrary, Tenant's indemnity of Landlord as set forth in Section 5.3.1.4, above, shall not be applicable to claims based upon Hazardous Materials not Released by Tenant or Tenant's Agents.

5.3.1.4.3 **Landlord Indemnity.** Under no circumstance shall Tenant be liable for, and Landlord shall indemnify, defend, protect and hold harmless Tenant and Tenant's Agents from and against, all losses, costs, claims, liabilities and damages (including attorneys' and consultants' fees) arising out of any Hazardous Materials that exist in, on or about the Project as of the date hereof, or Hazardous Material Released by Landlord or any Landlord Parties. Landlord will provide Tenant with any Hazardous Material reports relating to the Building that Landlord has in its immediate possession. The provision of such reports shall be for informational purposes only, and Landlord does not make any representation or warranty as to the correctness or completeness of any such reports.

5.3.1.5 **Compliance with Environmental Laws.** Without limiting the generality of Tenant's obligation to comply with applicable laws as otherwise provided in this Lease, Tenant shall, at its sole cost and expense, comply with all Environmental Laws related to the use of Hazardous Materials by Tenant and Tenant's Agents. Tenant shall obtain and maintain any and all necessary permits, licenses, certifications and approvals appropriate or required for the use, handling, storage, and disposal of any Hazardous Materials used, stored, generated, transported, handled, blended, or recycled by Tenant on the Premises. Landlord shall have a continuing right, without obligation, to require Tenant to obtain, and to review and inspect any and all such permits, licenses, certifications and approvals, together with copies of any and all Hazardous Materials management plans and programs, any and all Hazardous Materials risk management and pollution prevention programs, and any and all Hazardous Materials emergency response and employee training programs respecting Tenant's use of Hazardous Materials. Upon request of Landlord, Tenant shall deliver to Landlord a narrative description explaining the nature and scope of Tenant's activities involving Hazardous Materials and showing to Landlord's satisfaction compliance with all Environmental Laws and the terms of this Lease.

### 5.3.2 Assurance of Performance.

5.3.2.1 **Environmental Assessments In General.** Landlord may, but shall not be required to, engage from time to time such contractors as Landlord determines to be appropriate (and which are reasonably acceptable to Tenant) to perform environmental assessments of a scope reasonably determined by Landlord (an “**Environmental Assessment**”) to ensure Tenant’s compliance with the requirements of this Lease with respect to Hazardous Materials.

5.3.2.2 **Costs of Environmental Assessments.** All costs and expenses incurred by Landlord in connection with any such Environmental Assessment initially shall be paid by Landlord; provided that if any such Environmental Assessment shows that Tenant has failed to comply with the provisions of this Section 5.3, then all of the costs and expenses of such Environmental Assessment shall be reimbursed by Tenant as Additional Rent within ten (10) days after receipt of written demand therefor.

5.3.3 **Tenant’s Obligations upon Surrender.** At the expiration or earlier termination of the Lease Term, Tenant, at Tenant’s sole cost and expense, shall: (i) cause an Environmental Assessment of the Premises to be conducted in accordance with Section 15.3; (ii) cause all Hazardous Materials brought onto the Premises by Tenant or Tenant’s Agents to be removed from the Premises and disposed of in accordance with all Environmental Laws and as necessary to allow the Premises to be used for the purposes allowed as of the date of this Lease; and (iii) cause to be removed all containers installed or used by Tenant or Tenant’s Agents to store any Hazardous Materials on the Premises, and cause to be repaired any damage to the Premises caused by such removal.

### 5.3.4 Clean-up.

5.3.4.1 **Environmental Reports: Clean-Up.** If any written report, including any report containing results of any Environmental Assessment (an “**Environmental Report**”) shall indicate (i) the presence of any Hazardous Materials as to which Tenant has a removal or remediation obligation under this Section 5.3, and (ii) that as a result of same, the investigation, characterization, monitoring, assessment, repair, closure, remediation, removal, or other clean-up (the “**Clean-up**”) of any Hazardous Materials is required, Tenant shall immediately prepare and submit to Landlord within thirty (30) days after receipt of the Environmental Report a comprehensive plan, subject to Landlord’s written approval, specifying the actions to be taken by Tenant to perform the Clean-up so that the Premises are restored to the conditions required by this Lease. Upon Landlord’s approval of the Clean-up plan, Tenant shall, at Tenant’s sole cost and expense, without limitation on any rights and remedies of Landlord under this Lease, immediately implement such plan with a consultant reasonably acceptable to Landlord and proceed to Clean-Up Hazardous Materials in accordance with all applicable laws. If, within thirty (30) days after receiving a copy of such Environmental Report, Tenant fails either (a) to complete such Clean-up, or (b) with respect to any Clean-up that cannot be completed within such thirty-day period, fails to proceed with diligence to prepare the Clean-up plan and complete the Clean-up as promptly as practicable, then Landlord shall have the right, but not the obligation, and without waiving any other rights under this Lease, to carry out any Clean-up recommended by the Environmental Report or required by any governmental authority having jurisdiction over the Premises, and recover all of the costs and expenses thereof from Tenant as Additional Rent, payable within ten (10) days after receipt of written demand therefor.

5.3.4.2 **No Rent Abatement.** Tenant shall continue to pay all Rent due or accruing under this Lease during any Clean-up, and shall not be entitled to any reduction, offset or deferral of any Base Rent or Additional Rent due or accruing under this Lease during any such Clean-up.

5.3.4.3 **Surrender of Premises.** Tenant shall complete any Clean-up prior to surrender of the Premises upon the expiration or earlier termination of this Lease. Tenant shall obtain and deliver to Landlord a letter or other written determination from the overseeing governmental authority confirming that the Clean-up has been completed in accordance with all requirements of such governmental authority and that no further response action of any kind is required for the unrestricted use of the Premises (“**Closure Letter**”). Upon the expiration or earlier termination of this Lease, Tenant shall also be obligated to close all permits obtained in connection with Hazardous Materials used by Tenant or Tenant’s Agents in accordance with applicable laws.



5.3.4.4 **Failure to Timely Clean-Up.** Should any Clean-up for which Tenant is responsible not be completed, or should Tenant not receive the Closure Letter and any governmental approvals required under Environmental Laws in conjunction with such Clean-up prior to the expiration or earlier termination of this Lease, then, commencing on the later of the termination of this Lease and three (3) business days after Landlord's delivery of notice of such failure and that it elects to treat such failure as a holdover, Tenant shall be liable to Landlord as a holdover tenant (as more particularly provided in Article 16) until Tenant has fully complied with its obligations under this Section 5.3.

5.3.5 **Confidentiality.** Unless compelled to do so by applicable law, Tenant agrees that Tenant shall not disclose, discuss, disseminate or copy any information, data, findings, communications, conclusions and reports regarding the environmental condition of the Premises to any Person (other than Tenant's consultants, attorneys, property managers, employees, shareholders and potential and actual investors, lenders, business and merger partners, subtenants and assignees that have a need to know such information), including any governmental authority, without the prior written consent of Landlord. In the event Tenant reasonably believes that disclosure is compelled by applicable law, it shall provide Landlord ten (10) days' advance notice of disclosure of confidential information so that Landlord may attempt to obtain a protective order. Tenant may additionally release such information to bona fide prospective purchasers or lenders, subject to any such parties' written agreement to be bound by the terms of this Section 5.3.

5.3.6 **Copies of Environmental Reports.** Within thirty (30) days of receipt thereof, Tenant shall provide Landlord with a copy of any and all environmental assessments, audits, studies and reports regarding Tenant's activities with respect to the Premises, or ground water beneath the Land, or the environmental condition or Clean-up thereof. Tenant shall be obligated to provide Landlord with a copy of such materials without regard to whether such materials are generated by Tenant or prepared for Tenant, or how Tenant comes into possession of such materials.

5.3.7 **Signs, Response Plans, Etc.** Tenant shall be responsible for posting on the Premises any signs required under applicable Environmental Laws with respect to the use of Hazardous Materials by Tenant or Tenant's Agents. Tenant shall also complete and file any business response plans or inventories required by any applicable laws. Tenant shall concurrently file a copy of any such business response plan or inventory with Landlord.

5.3.8 **Survival.** Each covenant, agreement, representation, warranty and indemnification made by Tenant set forth in this Section 5.3 shall survive the expiration or earlier termination of this Lease and shall remain effective until all of Tenant's obligations under this Section 5.3 have been completely performed and satisfied.

## 6. SERVICES AND UTILITIES.

6.1 **In General.** Landlord will be responsible, at Tenant's sole cost and expense (subject to the terms of Section 4.2.4, above), for the furnishing of heating, ventilation and air-conditioning, electricity, water, and interior Building security services to the Premises. Landlord shall not provide janitorial or telephone services for the Premises. Tenant shall be solely responsible for performing all janitorial services and other cleaning of the Premises, all in compliance with applicable laws. The janitorial and cleaning of the Premises shall be adequate to maintain the Premises in a manner consistent with First Class Life Sciences Projects. Landlord shall provide to the Premises throughout the Lease Term, nitrogen, clean dry air, de-ionized water, house vacuum and UPS.

Tenant shall cooperate fully with Landlord at all times and abide by all reasonable regulations and requirements that Landlord may reasonably prescribe for the proper functioning and protection of the HVAC, electrical, mechanical and plumbing systems. Provided that Landlord agrees to provide and maintain and keep in continuous service utility connections to the Project, including electricity, water and sewage connections, Landlord shall have no obligation to provide any services or utilities to the Building, including, but not limited to heating, ventilation and air-conditioning, electricity, water, telephone, janitorial and interior Building security services, except as set forth in this Section 6.1, above.

6.2 **Allocation of Utilities Costs.** To the extent that any utilities (including without limitation, electricity, gas, sewer and water) to the Building are separately metered to the Premises, such utilities shall be contracted for and paid directly by Tenant to the applicable utility provider. To the extent that any utilities (including without limitation, electricity, gas, sewer and water) to the Building are not separately metered to the Premises, then Tenant shall pay to Landlord, within thirty (30) days after billing, an equitable portion of the Building utility costs, based on Tenant's proportionate use thereof. Tenant shall have the right to reasonably designate a suitable, licensed contractor to perform a measurement of the utility consumption by all occupants of the Building and Landlord shall equitably adjust the amount payable by Tenant based thereon. Upon request by Tenant, Landlord shall permit a contractor selected by Tenant and reasonably approved by Landlord to access the building management system to attempt to reduce the hours and level of service of the HVAC system to the Premises outside of business hours (including expanding the temperature range) in a manner that does not reduce required service to other portions of the Building, which work shall be at Tenant's sole cost and expense. Landlord shall equitably adjust the share of utility costs billed to Tenant to reflect the reduced usage of HVAC as a result of such adjustments.

6.3 **Interruption of Use.** Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service or utility (including, without limitation, telephone and telecommunication services, UPS services, or other laboratory services or utilities), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Building or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or other parties, or by any other cause; and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease. Notwithstanding the foregoing, Landlord may be liable for damages to the extent caused by the negligence or willful misconduct of Landlord or the Landlord Parties, provided that Landlord shall not be liable under any circumstances for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this Article 6.

6.4 **Energy Performance Disclosure Information.** Tenant hereby acknowledges that Landlord may be required to disclose certain information concerning the energy performance of the Building pursuant to California Public Resources Code Section 25402.10 and the regulations adopted pursuant thereto (collectively the "**Energy Disclosure Requirements**"). Tenant hereby acknowledges prior receipt of the Data Verification Checklist, as defined in the Energy Disclosure Requirements (the "**Energy Disclosure Information**"), and agrees that Landlord has timely complied in full with Landlord's obligations under the Energy Disclosure Requirements. Tenant acknowledges and agrees that (i) Landlord makes no representation or warranty regarding the energy performance of the Building or the accuracy or completeness of the Energy Disclosure Information, (ii) the Energy Disclosure Information is for the current occupancy and use of the Building and that the energy performance of the Building may vary depending on future occupancy and/or use of the Building, and (iii) Landlord shall have no liability to Tenant for any errors or omissions in the Energy Disclosure Information. If and to the extent not prohibited by applicable laws, Tenant hereby waives any right Tenant may have to receive the Energy Disclosure Information, including, without limitation, any right Tenant may have to terminate this Lease as a result of Landlord's failure to disclose such information. Further, Tenant hereby releases Landlord from any and all losses, costs, damages, expenses and/or liabilities relating to, arising out of and/or resulting from the Energy Disclosure Requirements, including, without limitation, any liabilities arising as a result of Landlord's failure to disclose the Energy Disclosure Information to Tenant prior to the execution of this Lease. Tenant's acknowledgment of the AS-IS condition of the Premises to the extent provided in this Lease shall be deemed to include the energy performance of the Building. Tenant further acknowledges that pursuant to the Energy Disclosure Requirements, Landlord may be required in the future to disclose information concerning Tenant's energy usage to certain third parties, including, without limitation, prospective purchasers, lenders and tenants of the Building (the "**Tenant Energy Use Disclosure**"). Tenant hereby (A) consents to all such Tenant Energy Use Disclosures, and (B) acknowledges that Landlord shall not be required to notify Tenant of any Tenant Energy Use Disclosure. Further, Tenant hereby releases Landlord from any and all losses, costs, damages, expenses and liabilities relating to, arising out of and/or resulting from any Tenant Energy Use Disclosure. The terms of this Section 6.4 shall survive the expiration or earlier termination of this Lease.

**6.5 Rooftop Rights.** Commencing on the Lease Commencement Date, Tenant shall continue to have the right to use the satellite dish it installed under the Existing Lease on the terms set forth in Section 6.6 thereof. Subject to, (A) reasonable construction rules and regulations promulgated by Landlord, (B) the Building standards therefor, and (C) the terms and conditions set forth in Article 8 of this Lease and this Section 6.5, Tenant may install, repair, maintain and use, at Tenant's sole cost and expense, but without the payment of any Base Rent or similar fee or charge, communications devices (the number of which shall be determined by Landlord in its sole and absolute discretion) on the roof of the Building for the sending and receiving of signals or broadcasts (provided that there shall be no generation or transmission of commercial signals or broadcasts) servicing the business conducted by Tenant from within the Premises (such satellite is defined as the "**Rooftop Equipment**"). The Rooftop Equipment shall be no larger than (or otherwise occupy a space which is larger than) six (6) feet. Tenant shall be solely responsible for any and all costs incurred or arising in connection with the Rooftop Equipment, including but not limited to costs of electricity and insurance related to the Rooftop Equipment. Landlord makes no representations or warranties whatsoever with respect to the condition of the roof of the Building, or the fitness or suitability of the roof of the Building for the installation, maintenance and operation of the Rooftop Equipment, including, without limitation, with respect to the quality and clarity of any receptions and transmissions to or from the Rooftop Equipment and the presence of any interference with such signals whether emanating from the Building or otherwise. The physical appearance and the size of the Rooftop Equipment shall be subject to Landlord's reasonable approval, the location of any such Rooftop Equipment shall be mutually agreed upon by Landlord and Tenant and Landlord may require Tenant to install screening around such Rooftop Equipment, at Tenant's sole cost and expense, as reasonably designated by Landlord. Tenant shall service, maintain and repair such Rooftop Equipment, at Tenant's sole cost and expense. In the event Tenant elects to exercise its right to install the Rooftop Equipment, then Tenant shall give Landlord prior notice thereof. Tenant shall reimburse to Landlord the actual costs reasonably incurred by Landlord in approving such Rooftop Equipment. Tenant's rights under this Section 6.5 shall terminate and shall be of no further force or effect upon the expiration or earlier termination of this Lease, or, in the event Tenant (or a Permitted Transferee ) no longer occupies the Premises. Prior to the expiration or earlier termination of this Lease, Tenant shall, as promptly as possible but in no event more than fifteen (15) days thereafter, remove and restore the affected portion of the rooftop, the Building and the Premises to the condition the rooftop, the Building and the Premises would have been in had no such Rooftop Equipment been installed (reasonable wear and tear excepted). Such Rooftop Equipment shall be installed pursuant to plans and specifications approved by Landlord (specifically including, without limitation, all mounting and waterproofing details), which approval will not be unreasonably withheld, conditioned, or delayed. Notwithstanding any such review or approval by Landlord, Tenant shall remain solely liable for any damage arising in connection with Tenant's installation, use, maintenance and/or repair of such Rooftop Equipment, including, without limitation, any damage to a portion of the roof or roof membrane and any penetrations to the roof. Landlord and Tenant hereby acknowledge and agree that Landlord shall have no liability in connection with Tenant's use, maintenance and/or repair of such Rooftop Equipment. Such Rooftop Equipment shall, in all instances, comply with applicable governmental laws, codes, rules and regulations. Tenant shall not be entitled to license its Rooftop Equipment to any third party, nor shall Tenant be permitted to receive any revenues, fees or any other consideration for the use of such Rooftop Equipment by a third party. Tenant's right to install such Rooftop Equipment shall be non-exclusive, and Tenant hereby expressly acknowledges Landlord's continued right (i) to itself utilize any portion of the rooftop of the Building, and (ii) to re-sell, license or lease any rooftop space to an unaffiliated third party; provided, however, such Landlord (or third-party) use shall not materially interfere with (or preclude the installation of) Tenant's Rooftop Equipment. Notwithstanding any provision to the contrary contained in this Section 6.5, in no event shall Tenant make any improvements or alterations on the roof without first receiving Landlord's prior consent. The rights contained in this Section 6.5 shall be personal to the Original Tenant and any Permitted Transferee, and may only be exercised by the Original Tenant and any Permitted Transferee (and not by any other assignee, sublessee or other transferee of Tenant's interest in the Lease) if the Original Tenant or Permitted Transferee occupies the entire Premises as of the date of the attempted exercise of its rooftop rights set forth herein.

## **7. REPAIRS.**

**7.1 Tenant Repair Obligations.** Tenant shall, throughout the Term, at its sole cost and expense, maintain, repair or replace as required, the Premises in a good standard of maintenance, repair and replacement as required, and in good and sanitary condition, all in accordance with the standards of First Class Life Sciences Projects, except for the Landlord Repair Obligations, whether or not such maintenance, repair, replacement or improvement is required in order to comply with applicable Laws ("**Tenant's Repair Obligations**"), including without limitation, all electrical facilities and equipment, including lighting fixtures, lamps, fans and any exhaust equipment and systems,

electrical motors and all other appliances and equipment of every kind and nature located in the Premises; all communications systems serving the Premises; all of Tenant's security systems in or about or serving the Premises; Tenant's signage; interior demising walls and partitions (including painting and wall coverings), equipment, floors. Tenant shall additionally be responsible, at Tenant's sole cost and expense, to furnish all expendables, including light bulbs, paper goods and soaps, used in the Premises.

7.2 **Landlord Repair Obligations.** Landlord shall be responsible, as a part of Operating Expenses, for repairs to and routine maintenance of the Building including without limitation: (1) exterior windows, window frames, window casements (including the repairing, resealing, cleaning and replacing of exterior windows); (2) exterior doors, door frames and door closers; (3) the Building (as opposed to the Premises) and Project plumbing, sewer, drainage, electrical, fire protection, life safety and security systems and equipment, existing heating, ventilation and air-conditioning systems, the laboratory utilities described in Section 6.1, and all other mechanical and HVAC systems and equipment (collectively, the "**Building Systems**"), (4) the exterior glass, exterior walls, foundation and roof of the Building, the structural portions of the floors of the Building, including, without limitation, any painting, sealing, patching and waterproofing of exterior walls, and (5) repairs to the elevator in the Building and underground utilities, except to the extent that any such repairs are required due to the negligence or willful misconduct of Tenant (the "**Landlord Repair Obligations**"); provided, however, that if such repairs are due to the negligence or willful misconduct of Tenant, Landlord shall nevertheless make such repairs at Tenant's expense, or, if covered by Landlord's insurance, Tenant shall only be obligated to pay any deductible in connection therewith. Costs expended by Landlord in connection with the Landlord Repair Obligations shall be included in Operating Expenses to the extent allowed pursuant to the terms of Article 4, above. Landlord shall cooperate with Tenant to enforce any warranties that Landlord holds that could reduce Tenant's maintenance obligations under this Lease.

7.3 **Tenant's Right to Make Repairs.** Notwithstanding any provision to the contrary contained in this Lease, if Tenant provides written notice to Landlord of an event or circumstance which requires the action of Landlord under this Lease with respect to repair and/or maintenance required in the Premises, including repairs to the portions of the Building that are Landlord's responsibility under Section 7.4 (the "**Base Building**"), which event or circumstance with respect to the Base Building materially and adversely affects the conduct of Tenant's business from the Premises, and Landlord fails to commence corrective action within a reasonable period of time, given the circumstances, after the receipt of such notice, but in any event not later than thirty (30) days after receipt of said notice (unless Landlord's obligation cannot reasonably be performed within thirty (30) days, in which event Landlord shall be allowed additional time as is reasonably necessary to perform the obligation so long as Landlord begins performance within the initial thirty (30) days and diligently pursues performance to completion), or, in the event of an Emergency (as defined below), not later than five (5) business days after receipt of such notice, then Tenant shall have the right to undertake such actions as may be reasonably necessary to make such repairs if Landlord thereafter fails to commence corrective action within five (5) business days following Landlord's receipt of a second written notice from Tenant specifying that Tenant will undertake such actions if Landlord fails to timely do so (provided that such notice shall include the following language in bold, capitalized text: "**IF LANDLORD FAILS TO COMMENCE THE REPAIRS DESCRIBED IN THIS LETTER WITHIN FIVE (5) BUSINESS DAYS FROM LANDLORD'S RECEIPT OF THIS LETTER, TENANT WILL PERFORM SUCH REPAIRS AT LANDLORD'S EXPENSE**"); provided, however, that in no event shall Tenant undertake any actions that could materially or adversely affect the Base Building. Notwithstanding the foregoing, in the event of an Emergency, no second written notice shall be required as long as Tenant advises Landlord in the first written notice of Tenant's intent to perform such Emergency repairs if Landlord does not commence the same within such five (5) business day period, utilizing the language required in second notices. If such action was required under the terms of this Lease to be taken by Landlord and was not commenced by Landlord within such five (5) business day period and thereafter diligently pursued to completion, then Tenant shall be entitled to prompt reimbursement by Landlord of the reasonable out-of-pocket third-party costs and expenses actually incurred by Tenant in taking such action. If Tenant undertakes such corrective actions pursuant to this Section 7.3, then (a) the insurance and indemnity provisions set forth in this Lease shall apply to Tenant's performance of such corrective actions, (b) Tenant shall proceed in accordance with all applicable laws, (c) Tenant shall retain to perform such corrective actions only such reputable contractors and suppliers as are duly licensed and qualified, (d) Tenant shall effect such repairs in a good and workmanlike and commercially reasonable manner, (e) Tenant shall use new or like new materials, and (f) Tenant shall take reasonable efforts to minimize any material interference or impact on the other tenants and occupants of the Building. Promptly following completion of any work taken by Tenant pursuant to the terms of this Section 7.5, Tenant shall deliver a detailed invoice of the work completed, the materials used and the costs relating thereto, and Landlord shall reimburse Tenant

the amounts expended by Tenant in connection with such work, provided that Landlord shall have the right to reasonably object if Landlord claims that such action did not have to be taken by Landlord pursuant to the terms of this Lease or that the charges are excessive (in which case Landlord shall pay the amount it contends would not have been excessive). For purposes of this Section 7.5, an “**Emergency**” shall mean an event threatening immediate and material danger to people located in the Building or immediate, material damage to the Building, Base Building, or creating a realistic possibility of an immediate and material interference with, or immediate and material interruption of a material aspect of Tenant’s business operations.

## **8. ADDITIONS AND ALTERATIONS.**

**8.1 Landlord’s Consent to Alterations.** Tenant may not make any improvements, alterations, additions or changes to the Premises or any mechanical, plumbing or HVAC facilities or systems pertaining to the Premises (collectively, the “**Alterations**”) without first procuring the prior written consent of Landlord to such Alterations, which consent shall be requested by Tenant not less than ten (10) business days prior to the commencement thereof, and which consent shall not be unreasonably withheld by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which adversely affects the structural portions or the systems or equipment of the Building or is visible from the exterior of the Building. Notwithstanding the foregoing, Tenant shall be permitted to make Alterations following ten (10) business days’ notice to Landlord (as to Alterations costing more than \$10,000 only), but without Landlord’s prior consent, to the extent that such Alterations (i) do not affect the building systems or equipment (other than minor changes such as adding or relocating electrical outlets and thermostats), (ii) are not visible from the exterior of the Building, and (iii) cost less than \$50,000.00 for a particular job of work.

**8.2 Manner of Construction.** Landlord may impose, as a condition of its consent to any and all Alterations or repairs of the Premises or about the Premises, such requirements as Landlord in its reasonable discretion may deem desirable, including, but not limited to, the requirement that upon Landlord’s request, Tenant shall, at Tenant’s expense, remove such Alterations upon the expiration or any early termination of the Lease Term. Tenant shall construct such Alterations and perform such repairs in a good and workmanlike manner, in conformance with any and all applicable federal, state, county or municipal laws, rules and regulations and pursuant to a valid building permit, issued by the city in which the Building is located (or other applicable governmental authority). Tenant shall not use (and upon notice from Landlord shall cease using) contractors, services, workmen, labor, materials or equipment that, in Landlord’s reasonable judgment, would disturb labor harmony with the workforce or trades engaged in performing other work, labor or services in or about the Building or the Common Areas. Upon completion of any Alterations, Tenant shall deliver to Landlord final lien waivers from all contractors, subcontractors and materialmen who performed such work. In addition to Tenant’s obligations under Article 9 of this Lease, upon completion of any Alterations, Tenant agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the County of San Mateo in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and Tenant shall deliver to the Project construction manager a reproducible copy of the “**as built**” drawings of the Alterations as well as all permits, approvals and other documents issued by any governmental agency in connection with the Alterations.

**8.3 Payment for Improvements.** In connection with any Alterations that affect the Building systems (other than minor changes such as adding or relocating electrical outlets and thermostats), or which have a cost in excess of \$100,000, Tenant shall reimburse Landlord for Landlord’s reasonable, actual, out-of-pocket costs and expenses actually incurred in connection with Landlord’s review of such work.

**8.4 Construction Insurance.** In addition to the requirements of Article 10 of this Lease, in the event that Tenant makes any Alterations as to which Tenant is required to obtain Landlord’s consent or provide Landlord with notice, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant carries “**Builder’s All Risk**” insurance in an amount approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may reasonably require, it being understood and agreed that all of such Alterations shall be insured by Landlord pursuant to Article 10 of this Lease immediately upon completion thereof. In addition, Tenant’s contractors and subcontractors shall be required to carry Commercial General Liability Insurance in an amount approved by Landlord and otherwise in accordance with the requirements of Article 10 of this Lease. In connection with Alterations with a cost in excess of \$250,000, Landlord may, in its reasonable discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of such Alterations and naming Landlord as a co-obligee.

8.5 **Landlord's Property.** All Alterations, improvements, fixtures, equipment and/or appurtenances which may be installed or placed in or about the Premises, from time to time, shall be at the sole cost of Tenant and all Alterations and improvements (including demountable walls), shall be and become the property of Landlord and remain in place at the Premises following the expiration or earlier termination of this Lease. Notwithstanding the foregoing, Landlord may, by written notice to Tenant given at the time it consents to an Alteration, require Tenant, at Tenant's expense, to remove any Alterations within the Premises and to repair any damage to the Premises and Building caused by such removal. If Tenant fails to complete such removal and/or to repair any damage caused by the removal of any Alterations, Landlord may do so and may charge the cost thereof to Tenant. Tenant hereby protects, defends, indemnifies and holds Landlord harmless from any liability, cost, obligation, expense or claim of lien in any manner relating to the installation, placement, removal or financing of any such Alterations, improvements, fixtures and/or equipment in, on or about the Premises, which obligations of Tenant shall survive the expiration or earlier termination of this Lease. Notwithstanding the foregoing, the items set forth in **Exhibit F** attached hereto (the "**Tenant's Property**") shall at all times be and remain Tenant's property. **Exhibit F** may be updated from time to time by agreement of the parties. Tenant may remove the Tenant's Property from the Premises at any time, provided that Tenant repairs all damage caused by such removal. Landlord shall have no lien or other interest in the Tenant's Property.

**9. COVENANT AGAINST LIENS.** Tenant shall keep the Project and Premises free from any liens or encumbrances arising out of the work performed, materials furnished or obligations incurred by or on behalf of Tenant, and shall protect, defend, indemnify and hold Landlord harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of same or in connection therewith. Except as to Alterations as to which no notice is required under the second sentence of **Section 8.1**, Tenant shall give Landlord notice at least ten (10) business days prior to the commencement of any such work on the Premises (or such additional time as may be necessary under applicable laws) to afford Landlord the opportunity of posting and recording appropriate notices of non-responsibility (to the extent applicable pursuant to then applicable laws). Tenant shall remove any such lien or encumbrance by bond or otherwise within ten (10) business days after notice by Landlord, and if Tenant shall fail to do so, Landlord may pay the amount necessary to remove such lien or encumbrance, without being responsible for investigating the validity thereof.

## **10. INSURANCE.**

10.1 **Indemnification and Waiver.** Except as provided in **Section 10.5** or to the extent due to the negligence, willful misconduct or violation of this Lease by Landlord or the Landlord Parties, Tenant hereby assumes all risk of damage to property in, upon or about the Premises from any cause whatsoever (including, but not limited to, any personal injuries resulting from a slip and fall in, upon or about the Premises) and agrees that Landlord, its partners, subpartners and their respective officers, agents, servants, employees, and independent contractors (collectively, "**Landlord Parties**") shall not be liable for, and are hereby released from any responsibility for, any damage either to person or property or resulting from the loss of use thereof, which damage is sustained by Tenant or by other persons claiming through Tenant. Tenant shall indemnify, defend, protect, and hold harmless the Landlord Parties from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred in connection with or arising from any cause in, on or about the Premises (including, but not limited to, a slip and fall), any acts, omissions or negligence of Tenant or of any person claiming by, through or under Tenant, or of the contractors, agents, servants, employees, invitees, guests or licensees of Tenant or any such person, in, on or about the Project or any breach of the terms of this Lease, either prior to, during, or after the expiration of the Lease Term, provided that the terms of the foregoing indemnity shall not apply to the negligence or willful misconduct of Landlord or its agents, employees, contractors, licensees or invitees, or Landlord's violation of this Lease. Should Landlord be named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy of the Premises, Tenant shall pay to Landlord its costs and expenses incurred in such suit, including without limitation, its actual professional fees such as reasonable appraisers', accountants' and attorneys' fees. Notwithstanding anything to the contrary in this Lease, Landlord shall not be released or indemnified from, and shall indemnify, defend, protect and hold harmless Tenant from, all losses, damages, liabilities, claims, attorneys' fees, costs and expenses arising from the gross negligence or willful misconduct of Landlord or its agents, contractors, licensees or invitees, or a violation of Landlord's obligations or representations under this Lease. The provisions of this **Section 10.1** shall survive the expiration or sooner termination of this Lease with respect to any claims or liability arising in connection with any event occurring prior to such expiration or termination.

10.2 **Tenant's Compliance With Landlord's Property Insurance.** Landlord shall insure the Building, tenant improvements and any Alterations during the Lease Term against loss or damage under an "all risk" property insurance policy. Such coverage shall be in such amounts, from such companies, and on such other terms and conditions, as Landlord may from time to time reasonably determine. Additionally, at the option of Landlord, such insurance coverage may include the risks of earthquakes and/or flood damage and additional hazards, a rental loss endorsement and one or more loss payee endorsements in favor of the holders of any mortgages or deeds of trust encumbering the interest of Landlord in the Building or the ground or underlying lessors of the Building, or any portion thereof. The costs of such insurance shall be included in Operating Expenses, subject to the terms of Section 4.2.4. Tenant shall, at Tenant's expense, comply with all insurance company requirements pertaining to the use of the Premises. If Tenant's conduct or use of the Premises causes any increase in the premium for such insurance policies then Tenant shall reimburse Landlord for any such increase. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body. Notwithstanding anything to the contrary in this Lease, Tenant shall not be required to comply with or cause the Premises to comply with any laws, rules, regulations or insurance requirements requiring the construction of alterations unless such compliance is necessitated solely due to Tenant's particular use of the Premises.

10.3 **Tenant's Insurance.** Tenant shall maintain the following coverages in the following amounts.

10.3.1 Commercial General Liability Insurance on an occurrence form covering the insured against claims of bodily injury and property damage (including loss of use thereof) arising out of Tenant's operations, and contractual liabilities (which limits may be met together with umbrella liability insurance) of not less than:

Bodily Injury and	\$4,000,000 each occurrence
Property Damage Liability	\$4,000,000 annual aggregate
Personal Injury Liability	\$4,000,000 annual aggregate

10.3.2 Property Insurance covering all office furniture, business and trade fixtures, office and lab equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Premises installed by, for, or at the expense of Tenant. Such insurance shall be written on a "special form" of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage (excluding flood), including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of ninety (90) days.

10.3.3 Business Income Interruption for ninety (90) days plus Extra Expense insurance in such amounts as will reimburse Tenant for actual direct or indirect loss of earnings attributable to the risks outlined in Section 10.3.2 above.

10.3.4 Worker's Compensation and Employer's Liability or other similar insurance pursuant to all applicable state and local statutes and regulations. The policy shall include a waiver of subrogation in favor of Landlord, its employees, Lenders and any property manager or partners.

10.4 **Form of Policies.** The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. Such insurance shall (i) name Landlord, its subsidiaries and affiliates, its property manager (if any) and any other party the Landlord so specifies, as an additional insured on the liability insurance, including Landlord's managing agent, if any; (ii) be issued by an insurance company having a rating of not less than A:VII in Best's Insurance Guide or which is otherwise acceptable to Landlord and authorized to do business in the State of California; and (iv) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and is non-contributing with any insurance required of Tenant. Tenant shall

not cause said insurance to be canceled or coverage changed unless thirty (30) days' prior written notice shall have been given to Landlord and any mortgagee of Landlord (unless such cancellation is the result of non-payment of premiums). Tenant shall deliver said policy or policies or certificates thereof to Landlord on or before the Lease Commencement Date and at least three (3) business days before the expiration dates thereof. In the event Tenant shall fail to procure such insurance, Landlord may, at its option, procure such policies for the account of Tenant, and the cost thereof shall be paid to Landlord within five (5) days after delivery to Tenant of bills therefor.

10.5 **Subrogation.** Landlord and Tenant hereby agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a property or business interruption loss to the extent that such coverage is agreed to be provided hereunder. Notwithstanding anything to the contrary in this Lease, the parties each hereby waive all rights and claims against each other for such losses, and waive all rights of subrogation of their respective insurers. The parties agree that their respective insurance policies do now, or shall, contain the waiver of subrogation.

10.6 **Additional Insurance Obligations.** Tenant shall carry and maintain during the entire Lease Term, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this [Article 10](#) and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord or Landlord's lender, but in no event in excess of the amounts and types of insurance then being required by landlords of buildings comparable to and in the vicinity of the Building.

## 11. DAMAGE AND DESTRUCTION.

11.1 **Repair of Damage to Premises by Landlord.** Tenant shall promptly notify Landlord of any damage to the Premises resulting from fire or any other casualty. If the Premises or any Common Areas serving or providing access to the Premises shall be damaged by fire or other casualty, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this [Article 11](#), restore the Premises and such Common Areas. Such restoration shall be to substantially the same condition of the Premises and the Common Areas prior to the casualty, except for modifications required by zoning and building codes and other laws or any other modifications to the Common Areas deemed desirable by Landlord, which are consistent with the character of the Project, provided that access to the Premises shall not be materially impaired. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof; provided however, that if such fire or other casualty shall have damaged the Premises or Common Areas necessary to Tenant's occupancy, and the damaged portions of the Premises are not occupied by Tenant as a result thereof, then during the time and to the extent the Premises are unfit for occupancy, the Rent shall be abated in proportion to the ratio that the amount of rentable square feet of the Premises which is unfit for occupancy for the purposes permitted under this Lease bears to the total rentable square feet of the Premises.

11.2 **Landlord's Option to Repair.** Notwithstanding the terms of [Section 11.1](#) of this Lease, Landlord may elect not to rebuild and/or restore the Premises, Building and/or Project, and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after the date of discovery of the damage, such notice to include a termination date giving Tenant sixty (60) days to vacate the Premises, but Landlord may so elect only if the Building shall be damaged by fire or other casualty or cause, and one or more of the following conditions is present: (i) in Landlord's reasonable judgment, repairs cannot reasonably be completed within one (1) year after the date of discovery of the damage (when such repairs are made without the payment of overtime or other premiums); (ii) the damage is due to a risk that Landlord is not required to insure under this Lease, and the cost of restoration exceed five percent (5%) of the replacement cost of the Building (unless Tenant agrees to pay any uninsured amount in excess of such five percent (5%)); or (iii) the damage occurs during the last twelve (12) months of the Lease Term and will take more than sixty (60) days to restore; provided, however, that if Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above, and the repairs cannot, in the reasonable opinion of Landlord, be completed within seven (7) months after the date of discovery of the damage (or are not in fact completed within eight (8) months after the date of discovery of the damage), Tenant may elect, no earlier than sixty (60) days after the date of the damage and not later than ninety (90) days after the date of such damage, or within thirty (30) days after such repairs are not timely completed, to terminate this Lease by written notice to Landlord effective as of the date specified in the notice, which date shall not be less than thirty (30) days nor more than sixty (60) days after the date such notice is given by Tenant.



11.3 **Waiver of Statutory Provisions.** The provisions of this Lease, including this Article 11, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, the Building or the Project, and any statute or regulation of the State of California, including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Building or the Project.

**12. NONWAIVER.** No provision of this Lease shall be deemed waived by either party hereto unless expressly waived in a writing signed thereby. The waiver by either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance of a lesser amount than the Rent herein stipulated shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. No receipt of monies by Landlord from Tenant after the termination of this Lease shall in any way alter the length of the Lease Term or of Tenant's right of possession hereunder, or after the giving of any notice shall reinstate, continue or extend the Lease Term or affect any notice given Tenant prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit, or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of said Rent shall not waive or affect said notice, suit or judgment.

**13. CONDEMNATION.** If the whole or any part of the Premises shall be taken by power of eminent domain or condemned by any competent authority for any public or quasi-public use or purpose, or if any adjacent property or street shall be so taken or condemned, or reconfigured or vacated by such authority in such manner as to require the use or reconstruction of any part of the Premises, or if Landlord shall grant a deed or other instrument in lieu of such taking by eminent domain or condemnation, Landlord shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. Tenant shall not because of such taking assert any claim against Landlord or the authority for any compensation because of such taking and Landlord shall be entitled to the entire award or payment in connection therewith, except that Tenant shall have the right to file any separate claim available to Tenant for any taking of Tenant's personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the Lease Term pursuant to the terms of this Lease, for moving expenses, for the unamortized value of any improvements paid for by Tenant and for the Lease "bonus value", so long as such claims are payable separately to Tenant. All Rent shall be apportioned as of the date of such termination. If any part of the Premises shall be taken, and this Lease shall not be so terminated, the Rent shall be proportionately abated. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure. Notwithstanding anything to the contrary contained in this Article 13, in the event of a temporary taking of all or any portion of the Premises for a period of one hundred and eighty (180) days or less, then this Lease shall not terminate but the Base Rent and the Additional Rent shall be abated for the period of such taking in proportion to the ratio that the amount of rentable square feet of the Premises taken bears to the total rentable square feet of the Premises. Landlord shall be entitled to receive the entire award made in connection with any such temporary taking.

#### **14. ASSIGNMENT AND SUBLETTING.**

14.1 **Transfers.** Tenant shall not, without the prior written consent of Landlord, assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, permit any assignment, or other transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or enter into any license or concession agreements or otherwise permit the occupancy or use of the Premises or any part thereof by any persons other than Tenant and its employees and contractors (all of the foregoing are hereinafter sometimes referred to collectively as "**Transfers**" and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a "**Transferee**"). If Tenant desires Landlord's

consent to any Transfer, Tenant shall notify Landlord in writing, which notice (the “**Transfer Notice**”) shall include (i) the proposed effective date of the Transfer, which shall not be less than thirty (30) days nor more than one hundred eighty (180) days after the date of delivery of the Transfer Notice, (ii) a description of the portion of the Premises to be transferred (the “**Subject Space**”), (iii) all of the terms of the proposed Transfer and the consideration therefor, including calculation of the “**Transfer Premium**”, as that term is defined in Section 14.3 below, in connection with such Transfer, the name and address of the proposed Transferee, and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, and (iv) current financial statements of the proposed Transferee certified by an officer, partner or owner thereof, and any other information reasonably required by Landlord which will enable Landlord to determine the financial responsibility, character, and reputation of the proposed Transferee, nature of such Transferee’s business and proposed use of the Subject Space. Any Transfer made without Landlord’s prior written consent shall, at Landlord’s option, be null, void and of no effect, and shall, at Landlord’s option, constitute a default by Tenant under this Lease. Whether or not Landlord consents to any proposed Transfer, Tenant shall pay Landlord’s reasonable review and processing fees, as well as any reasonable professional fees (including, without limitation, attorneys’, accountants’, architects’, engineers’ and consultants’ fees) incurred by Landlord (not to exceed \$3,500 in the aggregate for any particular Transfer), within thirty (30) days after written request by Landlord.

14.2 **Landlord’s Consent.** Landlord shall not unreasonably withhold or delay its consent to any proposed Transfer of the Subject Space to the Transferee on the terms specified in the Transfer Notice. Without limitation as to other reasonable grounds for withholding consent, the parties hereby agree that it shall be reasonable under this Lease and under any applicable law for Landlord to withhold consent to any proposed Transfer where one or more of the following apply:

14.2.1 The Transferee is of a character or reputation or engaged in a business which is not consistent with the quality of the Building or the Project;

14.2.2 The Transferee is either a governmental agency or instrumentality thereof;

14.2.3 The Transferee is not a party of reasonable financial worth and/or financial stability in light of the responsibilities to be undertaken in connection with the Transfer on the date consent is requested; or

14.2.4 The proposed Transfer would cause a violation of another lease for space in the Project, or would give an occupant of the Project a right to cancel its lease.

If Landlord consents to any Transfer pursuant to the terms of this Section 14.2 (and does not exercise any recapture rights Landlord may have under Section 14.4 of this Lease), Tenant may within six (6) months after Landlord’s consent, but not later than the expiration of said six-month period, enter into such Transfer of the Premises or portion thereof, upon substantially the same terms and conditions as are set forth in the Transfer Notice furnished by Tenant to Landlord pursuant to Section 14.1 of this Lease, provided that if there are any changes in the terms and conditions from those specified in the Transfer Notice such that Landlord would initially have been entitled to refuse its consent to such Transfer under this Section 14.2, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article 14 (including Landlord’s right of recapture, if any, under Section 14.4 of this Lease). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under Section 14.2 or otherwise has breached or acted unreasonably under this Article 14, their sole remedies shall be a suit for contract damages (other than damages for injury to, or interference with, Tenant’s business including, without limitation, loss of profits, however occurring) or declaratory judgment and an injunction for the relief sought, and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee.

14.3 **Transfer Premium.** If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any “**Transfer Premium**,” as that term is defined in this Section 14.3, received by Tenant from such Transferee. “**Transfer Premium**” shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred, and after deduction of (i) any costs of improvements made to the Subject Space in connection with such Transfer, (ii) brokerage commissions paid in connection with such

Transfer, and (iii) reasonable legal fees incurred in connection with such Transfer. “**Transfer Premium**” shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with such Transfer. The determination of the amount of Landlord’s applicable share of the Transfer Premium shall be made on a monthly basis as rent or other consideration is received by Tenant under the Transfer.

14.4 **Landlord’s Option as to Subject Space.** Notwithstanding anything to the contrary contained in this Article 14, in the event Tenant contemplates a Transfer other than a Permitted Transferee which, together with all prior Transfers then remaining in effect, would cause fifty percent (50%) or more of the Premises to be Transferred for more than fifty percent (50%) of the then remaining Lease Term (taking into account any extension of the Lease Term which has irrevocably exercised by Tenant), Tenant shall give Landlord notice (the “**Intention to Transfer Notice**”) of such contemplated Transfer (whether or not the contemplated Transferee or the terms of such contemplated Transfer have been determined). The Intention to Transfer Notice shall specify the portion of and amount of rentable square feet of the Premises which Tenant intends to Transfer in the subject Transfer (the “**Contemplated Transfer Space**”), the contemplated date of commencement of the Contemplated Transfer (the “**Contemplated Effective Date**”), and the contemplated length of the term of such contemplated Transfer. Thereafter, Landlord shall have the option, by giving written notice to Tenant within thirty (30) days after receipt of any Intention to Transfer Notice, to recapture the Contemplated Transfer Space. Such recapture shall cancel and terminate this Lease with respect to such Contemplated Transfer Space as of the Contemplated Effective Date. In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Rent reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of the same. If Landlord declines, or fails to elect in a timely manner, to recapture such Contemplated Transfer Space under this Section 14.4, then, subject to the other terms of this Article 14, for a period of nine (9) months (the “**Nine Month Period**”) commencing on the last day of such thirty (30) day period, Landlord shall not have any right to recapture the Contemplated Transfer Space with respect to any Transfer made during the Nine Month Period, provided that any such Transfer is substantially on the terms set forth in the Intention to Transfer Notice, and provided further that any such Transfer shall be subject to the remaining terms of this Article 14. If such a Transfer is not so consummated within the Nine Month Period (or if a Transfer is so consummated, then upon the expiration of the term of any Transfer of such Contemplated Transfer Space consummated within such Nine Month Period), Tenant shall again be required to submit a new Intention to Transfer Notice to Landlord with respect any contemplated Transfer, as provided above in this Section 14.4. Tenant shall not be required to provide a separate Intention to Transfer Notice and Tenant’s request for Landlord’s consent to a Transfer shall satisfy Tenant’s obligations in this Section 14.4.

14.5 **Effect of Transfer.** If Landlord consents to a Transfer, (i) the terms and conditions of this Lease shall in no way be deemed to have been waived or modified, (ii) such consent shall not be deemed consent to any further Transfer by either Tenant or a Transferee, (iii) Tenant shall deliver to Landlord, promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, (iv) Tenant shall furnish upon Landlord’s request a complete statement, certified by an independent certified public accountant, or Tenant’s chief financial officer, setting forth in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer, and (v) no Transfer relating to this Lease or agreement entered into with respect thereto, whether with or without Landlord’s consent, shall relieve Tenant or any guarantor of the Lease from any liability under this Lease, including, without limitation, in connection with the Subject Space. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated, Tenant shall, within thirty (30) days after demand, pay the deficiency, and if understated by more than two percent (2%), Tenant shall pay Landlord’s costs of such audit.

14.6 **Additional Transfers.** For purposes of this Lease, the term “**Transfer**” shall also include if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, or transfer of fifty percent (50%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof.

14.7 **Occurrence of Default.** Any Transfer hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any Transfer, Landlord shall have the right to: (i) treat such Transfer as cancelled and repossess the Subject Space by any lawful means, or (ii) require that such Transferee attorn to and recognize Landlord as its landlord under any such Transfer. If Tenant shall be in default under this Lease, Landlord is hereby irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord (which Landlord shall apply towards Tenant's obligations under this Lease) until such default is cured. Such Transferee shall rely on any representation by Landlord that Tenant is in default hereunder, without any need for confirmation thereof by Tenant. Upon any assignment, the assignee shall assume in writing all obligations and covenants of Tenant thereafter to be performed or observed under this Lease. No collection or acceptance of rent by Landlord from any Transferee shall be deemed a waiver of any provision of this Article 14 or the approval of any Transferee or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing. In no event shall Landlord's enforcement of any provision of this Lease against any Transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person. If Tenant's obligations hereunder have been guaranteed, Landlord's consent to any Transfer shall not be effective unless the guarantor also consents to such Transfer.

14.8 **Non-Transfers.** Notwithstanding anything to the contrary contained in this Article 14, (i) an assignment or subletting of all or a portion of the Premises to an affiliate of Tenant (an entity which is controlled by, controls, or is under common control with, Tenant), (ii) an assignment of the Premises to an entity which acquires all or substantially all of the assets or interests (partnership, stock or other) of Tenant, (iii) an assignment of the Premises to an entity which is the resulting entity of a merger or consolidation of Tenant with another entity, or (iv) a change of Control of Tenant or the sale of corporate shares of capital stock in Tenant in connection with a private financing or public offering of Tenant's stock on a nationally-recognized stock exchange (collectively, a "**Permitted Transferee**"), shall not be deemed a Transfer under this Article 14, provided that (A) Tenant notifies Landlord of any such assignment or sublease and promptly supplies Landlord with any documents or information reasonably requested by Landlord regarding such assignment or sublease or such affiliate, (B) such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease, (C) such Permitted Transferee shall be of a character and reputation consistent with the quality of the Building, and (D) such Permitted Transferee described in subpart (ii) or (iii) above shall have a tangible net worth (not including goodwill as an asset) computed in accordance with generally accepted accounting principles ("**Net Worth**") at least equal to the Net Worth of Tenant on the day immediately preceding the effective date of such assignment or sublease. An assignee of Tenant's entire interest that is also a Permitted Transferee may also be known as a "**Permitted Assignee**"; "**Control**," as used in this Section 14.8, shall mean the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty-one percent (51%) of the voting interest in, any person or entity. No such permitted assignment or subletting shall serve to release Tenant from any of its obligations under this Lease.

## 15. SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES.

15.1 **Surrender of Premises.** No act or thing done by Landlord or any agent or employee of Landlord during the Lease Term shall be deemed to constitute an acceptance by Landlord of a surrender of the Premises unless such intent is specifically acknowledged in writing by Landlord. The delivery of keys to the Premises to Landlord or any agent or employee of Landlord shall not constitute a surrender of the Premises or effect a termination of this Lease, whether or not the keys are thereafter retained by Landlord, and notwithstanding such delivery Tenant shall be entitled to the return of such keys at any reasonable time upon request until this Lease shall have been properly terminated. The voluntary or other surrender of this Lease by Tenant, whether accepted by Landlord or not, or a mutual termination hereof, shall not work a merger, and at the option of Landlord shall operate as an assignment to Landlord of all subleases or subtenancies affecting the Premises or terminate any or all such sublessees or subtenancies.

15.2 **Removal of Tenant Property by Tenant.** Upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, subject to the provisions of this Article 15, quit and surrender possession of the Premises to Landlord in as good order and condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, reasonable wear and tear, damage caused by casualty, repairs required as a result of condemnation, and repairs which are specifically made the responsibility of Landlord hereunder excepted. Upon such expiration or termination, Tenant shall, without expense to Landlord, remove or cause to be removed from the

Premises all debris and rubbish, and such items of furniture, equipment, free-standing cabinet work, movable partitions (but not demountable walls) and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and such similar articles of any other persons claiming under Tenant, as Landlord may, in its sole discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises and Building resulting from such removal.

15.3 **Environmental Assessment.** In connection with its surrender of the Premises, Tenant shall submit to Landlord, at least fifteen (15) days prior to the expiration date of this Lease (or in the event of an earlier termination of this Lease, as soon as reasonably possible following such termination), an environmental Assessment of the Premises by a competent and experienced environmental engineer or engineering firm reasonably satisfactory to Landlord (pursuant to a contract approved by Landlord and providing that Landlord can rely on the Environmental Assessment). If such Environmental Assessment reveals that remediation or Clean-up is required under any Environmental Laws that Tenant is responsible for under this Lease, Tenant shall submit a remediation plan prepared by a recognized environmental consultant and shall be responsible for all costs of remediation and Clean-up, as more particularly provided in Section 5.3, above.

15.4 **Condition of the Building and Premises Upon Surrender.** In addition to the above requirements of this Article 15, upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, surrender the Premises and Building with Tenant having complied with all of Tenant's obligations under this Lease, including those relating to improvement, repair, maintenance, compliance with law, testing and other related obligations of Tenant set forth in Article 7 of this Lease. In the event that the Building and Premises shall be surrendered in a condition which does not comply with the terms of this Section 15.4, because Tenant failed to comply with its obligations set forth in Lease, then following thirty (30) days notice to Tenant, during which thirty (30) day period Tenant shall have the right to cure such noncompliance, Landlord shall be entitled to expend all reasonable costs in order to cause the same to comply with the required condition upon surrender and Tenant shall immediately reimburse Landlord for all such costs upon notice and, commencing on the later of the termination of this Lease and three (3) business days after Landlord's delivery of notice of such failure and that it elects to treat such failure as a holdover, Tenant shall be deemed during the period that Tenant or Landlord, as the case may be, perform obligations relating to the Surrender Improvements to be in holdover under Article 16 of this Lease.

**16. HOLDING OVER.** If Tenant holds over after the expiration of the Lease Term or earlier termination thereof, with the express or implied consent of Landlord, such tenancy shall be from month-to-month only, and shall not constitute a renewal hereof or an extension for any further term. If Tenant holds over after the expiration of the Lease Term or earlier termination thereof, without the express or implied consent of Landlord, such tenancy shall be deemed to be a tenancy by sufferance only, and shall not constitute a renewal hereof or an extension for any further term. In either case, Base Rent shall be payable at a monthly rate equal to one hundred fifty percent (150%) of the Base Rent applicable during the last rental period of the Lease Term under this Lease. Such month-to-month tenancy or tenancy by sufferance, as the case may be, shall be subject to every other applicable term, covenant and agreement contained herein. Nothing contained in this Article 16 shall be construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. The provisions of this Article 16 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Landlord resulting therefrom.

**17. ESTOPPEL CERTIFICATES.** Within ten (10) business days following a request in writing by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an estoppel certificate, which, as submitted by Landlord, shall be substantially in the form of Exhibit D, attached hereto (or such other form as may be reasonably required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time, and shall also contain any other information reasonably requested by Landlord or Landlord's mortgagee or prospective mortgagee. Any such certificate may be relied upon by any prospective mortgagee or purchaser of all or any portion of the Project. Tenant shall execute and deliver whatever other instruments may be reasonably required for such purposes. At any time during the Lease Term, in connection with a

sale or financing of the Building by Landlord, Landlord may require Tenant to provide Landlord with its most recent annual financial statement and annual financial statements of the preceding two (2) years. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. Landlord shall hold such statements confidential, pursuant to the terms of a commercially reasonable confidentiality agreement regarding such statements. Failure of Tenant to timely execute, acknowledge and deliver such estoppel certificate or other instruments shall constitute an acceptance of the Premises and an acknowledgment by Tenant that statements included in the estoppel certificate are true and correct, without exception.

**18. SUBORDINATION.** Landlord hereby represents and warrants to Tenant that the Project is not currently subject to any ground lease, or to the lien of any mortgage or deed of trust. This Lease shall be subject and subordinate to all future ground or underlying leases of the Building or Project and to the lien of any mortgage, trust deed or other encumbrances now or hereafter in force against the Building or Project or any part thereof, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds, unless the holders of such mortgages, trust deeds or other encumbrances, or the lessors under such ground lease or underlying leases, require in writing that this Lease be superior thereto. The subordination of this Lease to any such future ground or underlying leases of the Building or Project or to the lien of any mortgage, trust deed or other encumbrances, shall be subject to Tenant's receipt of a commercially reasonable subordination, non-disturbance, and attornment agreement in favor of Tenant. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage or deed in lieu thereof (or if any ground lease is terminated), to attorn, without any deductions or set-offs whatsoever, to the lienholder or purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof (or to the ground lessor), if so requested to do so by such purchaser or lienholder or ground lessor, and to recognize such purchaser or lienholder or ground lessor as the lessor under this Lease, provided such lienholder or purchaser or ground lessor shall agree to accept this Lease and not disturb Tenant's occupancy, so long as Tenant timely pays the rent and observes and performs the terms, covenants and conditions of this Lease to be observed and performed by Tenant. Landlord's interest herein may be assigned as security at any time to any lienholder. Tenant shall, within ten (10) days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any such mortgages, trust deeds, ground leases or underlying leases. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale.

**19. DEFAULTS; REMEDIES.**

19.1 **Events of Default.** The occurrence of any of the following shall constitute a default of this Lease by Tenant:

19.1.1 Any failure by Tenant to pay any Rent or any other charge required to be paid under this Lease, or any part thereof, when due unless such failure is cured within five (5) business days after notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's performance in this Lease, in which event the failure to perform by Tenant within such time period shall be a default by Tenant under this Section 19.1.2, any failure by Tenant to observe or perform any other provision, covenant or condition of this Lease to be observed or performed by Tenant where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant; provided that if the nature of such default is such that the same cannot reasonably be cured within a thirty (30) day period, Tenant shall not be deemed to be in default if it diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure such default; or

19.1.3 Abandonment or vacation of all or a substantial portion of the Premises by Tenant while Tenant is in default under the Lease; or

19.1.4 The failure by Tenant to observe or perform according to the provisions of Articles 5, 14, 17 or 18 of this Lease where such failure continues for more than five (5) business days after notice from Landlord.

19.2 **Remedies Upon Default.** Upon the occurrence of any event of default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all of which remedies shall be distinct, separate and cumulative), the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

19.2.1 Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

- (i) The worth at the time of award of the unpaid rent which has been earned at the time of such termination; plus
- (ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus
- (iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus
- (iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, in each case to the extent allocable to the remaining Lease Term, brokerage commissions and advertising expenses incurred to obtain a new tenant, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and
- (v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "**rent**" as used in this Section 19.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 19.2.1(i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in Article 25 of this Lease, but in no case greater than the maximum amount of such interest permitted by law. As used in Section 19.2.1(iii) above, the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

19.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, above, or any law or other provision of this Lease), without prior demand or notice except as required by applicable law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Subleases of Tenant.** Whether or not Landlord elects to terminate this Lease on account of any default by Tenant, as set forth in this Article 19, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions

or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

19.4 **Efforts to Relet.** No re-entry, repairs, maintenance, changes, alterations and additions, appointment of a receiver to protect Landlord's interests hereunder, or any other action or omission by Landlord shall be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, nor shall same operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, unless express written notice of such intention is sent by Landlord to Tenant.

**20. COVENANT OF QUIET ENJOYMENT.** Landlord covenants that Tenant, on paying the Rent, charges for services and other payments herein reserved and on keeping, observing and performing all the other terms, covenants, conditions, provisions and agreements herein contained on the part of Tenant to be kept, observed and performed, shall, during the Lease Term, peaceably and quietly have, hold and enjoy the Premises subject to the terms, covenants, conditions, provisions and agreements hereof without interference by any persons lawfully claiming by or through Landlord. The foregoing covenant is in lieu of any other covenant express or implied.

**21. SECURITY DEPOSIT.** On or before the Lease Commencement Date, Tenant shall pay to Landlord a security deposit (the "**Security Deposit**") in the amount set forth in Section 8 of the Summary, as security for the faithful performance by Tenant of all of its obligations under this Lease. Landlord acknowledges that it is currently holding under the Existing Lease a security deposit in the form of a letter of credit in the amount of Two Hundred Sixty Thousand Dollars (\$260,000). Upon the later of Tenant's delivery of the Security Deposit and the Lease Commencement Date, Landlord shall return such letter of credit to Tenant. If Tenant defaults with respect to any provisions of this Lease, including, but not limited to, the provisions relating to the payment of Rent, the removal of property and the repair of resultant damage, Landlord may, without notice to Tenant, but shall not be required to apply all or any part of the Security Deposit for the payment of any Rent or any other sum in default and Tenant shall, upon demand therefor, restore the Security Deposit to its original amount. Any unapplied portion of the Security Deposit shall be returned to Tenant, or, if Tenant's interest in this Lease has been assigned, to the last assignee of Tenant's interest hereunder, within sixty (60) days following the expiration of the Lease Term. Tenant shall not be entitled to any interest on the Security Deposit. Tenant hereby irrevocably waives and relinquishes any and all rights, benefits, or protections, if any, Tenant now has, or in the future may have, under Section 1950.7 of the California Civil Code, any successor statute, and all other provisions of law, now or hereafter in effect, including, but not limited to, any provision of law which (i) establishes the time frame by which a landlord must refund a security deposit under a lease, or (ii) provides that a landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by a tenant, or to clean the subject premises. Tenant acknowledges and agrees that (A) any statutory time frames for the return of a security deposit are superseded by the express period identified in this Article 21, above, and (B) rather than be so limited, Landlord may claim from the Security Deposit (x) any and all sums expressly identified in this Article 21, above, and (y) any additional sums reasonably necessary to compensate Landlord for any and all losses or damages caused by Tenant's default of this Lease, including, but not limited to, all damages or rent due upon termination of this Lease pursuant to Section 1951.2 of the California Civil Code.

**22. COMMUNICATIONS AND COMPUTER LINE.** Tenant may install, maintain, replace, remove or use any communications or computer wires and cables serving the Premises (collectively, the "**Lines**"), provided that Tenant shall obtain Landlord's prior written consent, use an experienced and qualified contractor approved in writing by Landlord, and comply with all of the other provisions of Articles 7 and 8 of this Lease. Tenant shall pay all costs in connection therewith. Landlord reserves the right, upon notice to Tenant prior to the expiration or earlier termination of this Lease, to require that Tenant, at Tenant's sole cost and expense, remove any Lines located in or serving the Premises prior to the expiration or earlier termination of this Lease.

**23. SIGNS.**

23.1 **Exterior Signage.** Subject to Landlord's prior written approval, which shall not be unreasonably withheld, conditioned or delayed, and provided all signs are in keeping with the quality, design and style of the Building and Project, Tenant, at its sole cost and expense, may install (i) identification signage on the existing monument sign located on the exterior of the Building, and (ii) internal directional and lobby identification signage



(collectively, "**Tenant Signage**"); provided, however, in no event shall Tenant's Signage include an "Objectionable Name," as that term is defined in Section 23.2, of this Lease. Tenant Signage shall also include any signage currently in place under the Existing Lease. All such signage shall be subject to Tenant's obtaining all required governmental approvals. All permitted signs shall be maintained by Tenant at its expense in a first-class and safe condition and appearance. Upon the expiration or earlier termination of this Lease, Tenant shall remove all of its signs at Tenant's sole cost and expense. The graphics, materials, color, design, lettering, lighting, size, illumination, specifications and exact location of Tenant's Signage (collectively, the "**Sign Specifications**") shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed, and shall be consistent and compatible with the quality and nature of the Project. Tenant hereby acknowledges that, notwithstanding Landlord's approval of Tenant's Signage, Landlord has made no representation or warranty to Tenant with respect to the probability of obtaining all necessary governmental approvals and permits for Tenant's Signage. In the event Tenant does not receive the necessary governmental approvals and permits for Tenant's Signage, Tenant's and Landlord's rights and obligations under the remaining terms of this Lease shall be unaffected. Except as required by applicable law, Landlord shall not install any other signage on the Building. If Landlord elects to install a multi-tenant identification sign at the entrance to the Project, Tenant shall be entitled to install its name on such sign (subject to availability on a pro-rata basis based on the relative square footages leased by the tenants of the Project), at Tenant's sole cost and expense.

**23.2 Objectionable Name.** Tenant's Signage shall not include a name or logo which relates to an entity which is of a character or reputation, or is associated with a political faction or orientation, which is inconsistent with the quality of the Project, or which would otherwise reasonably offend a landlord of the Comparable Buildings (an "**Objectionable Name**"). Landlord agrees that "Sutro Biopharma, Inc." or "Sutro" is not an Objectionable Name.

**23.3 Prohibited Signage and Other Items.** Any signs, notices, logos, pictures, names or advertisements which are installed and that have not been separately approved by Landlord may be removed without notice by Landlord at the sole expense of Tenant. Any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Building), or other items visible from the exterior of the Premises or Building, shall be subject to the prior approval of Landlord, in its sole discretion.

**24. COMPLIANCE WITH LAW.** Tenant shall not do anything or suffer anything to be done in or about the Premises or the Project which will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated. At its sole cost and expense, Tenant shall promptly comply with all such governmental measures. Should any standard or regulation now or hereafter be imposed on Landlord or Tenant by a state, federal or local governmental body charged with the establishment, regulation and enforcement of occupational, health or safety standards for employers, employees, landlords or tenants, then Tenant agrees, at its sole cost and expense, to comply promptly with such standards or regulations. Tenant shall be responsible, at its sole cost and expense, to make all alterations to the Building and Premises as are required to comply with the governmental rules, regulations, requirements or standards described in this Article 24. The judgment of any court of competent jurisdiction or the admission of Tenant in any judicial action, regardless of whether Landlord is a party thereto, that Tenant has violated any of said governmental measures, shall be conclusive of that fact as between Landlord and Tenant. Tenant's obligations under this Article 24 are subject to the limitation in Section 10.2, above.

**25. LATE CHARGES.** If any installment of Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within five (5) business days after Tenant's receipt of written notice from Landlord that said amount is delinquent, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of the overdue amount plus any reasonable attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the late charge described above, any Rent or other amounts owing hereunder which are not paid within ten (10) days after Tenant's receipt of written notice that said amount is delinquent shall bear interest from the date when due until paid at a rate per annum equal to the lesser of (i) the annual "Bank Prime Loan" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord and Tenant shall reasonably agree upon if such rate ceases to be published) plus four (4) percentage points, and (ii) the highest rate permitted by applicable law.

## 26. LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT.

26.1 **Landlord's Cure.** All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall fail to perform any obligation under this Lease, and such failure shall continue in excess of the time allowed under Section 19.1.2, above, unless a specific time period is otherwise stated in this Lease, Landlord may, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder.

26.2 **Tenant's Reimbursement.** Except as may be specifically provided to the contrary in this Lease, Tenant shall pay to Landlord, upon delivery by Landlord to Tenant of statements therefor: (i) sums equal to expenditures reasonably made and obligations incurred by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of Section 26.1; (ii) sums equal to all losses, costs, liabilities, damages and expenses referred to in Article 10 of this Lease; and (iii) subject to Section 29.21, sums equal to all expenditures made and obligations incurred by Landlord in collecting or attempting to collect the Rent or in enforcing or attempting to enforce any rights of Landlord under this Lease or pursuant to law, including, without limitation, all reasonable legal fees and other amounts so expended. Tenant's obligations under this Section 26.2 shall survive the expiration or sooner termination of the Lease Term.

27. **ENTRY BY LANDLORD.** Landlord reserves the right at all reasonable times and upon reasonable notice to Tenant (except in the case of an Emergency) to enter the Premises to (i) inspect them; (ii) show the Premises to prospective purchasers, or to current or prospective mortgagees, ground or underlying lessors or insurers or, during the last nine (9) months of the Lease Term, to prospective tenants; (iii) post notices of nonresponsibility (to the extent applicable pursuant to then applicable law); or (iv) repair the Premises or the Building, or for structural repairs to the Building or the Building's systems and equipment as provided under the Lease. Landlord may make any such entries without the abatement of Rent, except as otherwise provided in this Lease, and may take such reasonable steps as required to accomplish the stated purposes. In an Emergency, Landlord shall have the right to use any means that Landlord may deem proper to open the doors in and to the Premises. Any entry into the Premises by Landlord in the manner hereinbefore described shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an actual or constructive eviction of Tenant from any portion of the Premises. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's use of or access to the Premises in connection with any such entry, and shall comply with Tenant's reasonable security measures. Landlord shall hold confidential any information regarding Tenant's business that it may learn as a result of such entry.

28. **TENANT PARKING.** Tenant shall have the right, without the payment of any parking charge or fee (other than as a reimbursement of operating expenses to the extent allowed pursuant to the terms or Article 4 of this Lease, above), commencing on the Lease Commencement Date, to use the amount of parking set forth in Section 9 of the Summary, in the on-site parking lot which serves the Building. Tenant shall abide by all reasonable rules and regulations which are prescribed from time to time for the orderly operation and use of the parking facility where the parking passes are located (including any sticker or other identification system established by Landlord and the prohibition of vehicle repair and maintenance activities in the parking facilities), and shall cooperate in seeing that Tenant's employees and visitors also comply with such rules and regulations. Tenant's use of the Project parking facility shall be at Tenant's sole risk and Tenant acknowledges and agrees that Landlord shall have no liability whatsoever for damage to the vehicles of Tenant, its employees and/or visitors, or for other personal injury or property damage or theft relating to or connected with the parking rights granted herein or any of Tenant's, its employees' and/or visitors' use of the parking facilities. Landlord shall not oversubscribe parking.

## 29. MISCELLANEOUS PROVISIONS.

29.1 **Terms; Captions.** The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. The necessary grammatical changes required to make the provisions hereof apply either to corporations or partnerships or individuals, men or women, as the case may require, shall in all cases be assumed as though in each case fully expressed. The captions of Articles and Sections are for convenience only and shall not be deemed to limit, construe, affect or alter the meaning of such Articles and Sections.

29.2 **Binding Effect.** Subject to all other provisions of this Lease, each of the covenants, conditions and provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit not only of Landlord and of Tenant, but also of their respective heirs, personal representatives, successors or assigns, provided this clause shall not permit any assignment by Tenant contrary to the provisions of Article 14 of this Lease.

29.3 **No Air Rights.** No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

29.4 **Modification of Lease.** Should any current or prospective mortgagee or ground lessor for the Building or Project require a modification of this Lease, which modification will not cause an increased cost or expense to Tenant or in any other way materially and adversely change the rights and obligations of Tenant hereunder or interfere with Tenant's use of the Premises, then and in such event, Tenant agrees that this Lease may be so modified and agrees to execute whatever documents are reasonably required therefor and to deliver the same to Landlord within ten (10) business days following a request therefor. At the request of Landlord or any mortgagee or ground lessor, Tenant agrees to execute a short form of Lease and deliver the same to Landlord within ten (10) business days following the request therefor.

29.5 **Transfer of Landlord's Interest.** Tenant acknowledges that Landlord has the right to transfer all or any portion of its interest in the Project or Building and in this Lease, and Tenant agrees that in the event of any such transfer, Landlord shall automatically be released from all liability under this Lease and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations hereunder accruing after the date of transfer provided such transferee shall have fully assumed and agreed in writing to be liable for all obligations of this Lease to be performed by Landlord, including the return of any Security Deposit, and Tenant shall attorn to such transferee.

29.6 **Prohibition Against Recording.** Except as provided in Section 29.4 of this Lease, neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant.

29.7 **Landlord's Title.** Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the title of Landlord.

29.8 **Relationship of Parties.** Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

29.9 **Payment under Protest.** If Tenant in good faith disputes any amounts billed by Landlord, other than (i) Base Rent, (ii) Tenant's Share of Direct Expenses (as to which Tenant may exercise its rights under Section 4.6, above), Tenant may make payment of such amounts under protest, and reserve all of its rights with respect to such amounts (the "**Disputed Amounts**"). Landlord and Tenant shall meet and confer to discuss the Disputed Amounts and attempt, in good faith, to resolve the particular dispute. If, despite such good faith efforts, Landlord and Tenant are unable to reach agreement regarding the Disputed Amounts, either party may submit the matter to binding arbitration under the JAMS Streamlined Arbitration Rules & Procedures. The non-prevailing party, as determined by JAMS, will be responsible to pay all fees and costs incurred in connection with the JAMS procedure, as well as all other costs and expenses, including reasonable attorneys' fees, incurred by the prevailing party. This Section 29.9 shall not apply to claims relating to Landlord's exercise of any unlawful detainer rights pursuant to California law or rights or remedies used by Landlord to gain possession of the Premises or terminate Lessee's right of possession to the Premises.

29.10 **Time of Essence.** Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

29.11 **Partial Invalidity.** If any term, provision or condition contained in this Lease shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, provision or condition to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby, and each and every other term, provision and condition of this Lease shall be valid and enforceable to the fullest extent possible permitted by law.

29.12 **No Warranty.** In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising Additional Rent or the amount of the Additional Rent in the aggregate or that Landlord is furnishing the same services to other tenants, at all, on the same level or on the same basis, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

29.13 **Landlord Exculpation.** The liability of Landlord or the Landlord Parties to Tenant for any default by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises shall be limited solely and exclusively to an amount which is equal to the lesser of (a) the interest of Landlord in the Project or (b) the equity interest Landlord would have in the Project if the Project were encumbered by third-party debt in an amount equal to eighty percent (80%) of the value of the Project (as such value is determined by Landlord), including any rental, condemnation, sales and insurance proceeds received by Landlord or the Landlord Parties in connection with the Project, Building or Premises. No Landlord Parties (other than Landlord) shall have any personal liability therefor, and Tenant hereby expressly waives and releases such liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Section 29.13 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), or trustee or beneficiary (if Landlord or any partner of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring, or loss to inventory, scientific research, scientific experiments, laboratory animals, products, specimens, samples, and/or scientific, business, accounting and other records of every kind and description kept at the premises and any and all income derived or derivable therefrom.

29.14 **Entire Agreement.** It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease constitutes the parties' entire agreement with respect to the leasing of the Premises and supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto.

29.15 **Right to Lease.** Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Building or Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Building or Project.

29.16 **Force Majeure.** Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorist acts, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease (collectively, a "**Force Majeure**"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure, provided, however, the foregoing delays shall not apply to Tenant's termination rights hereunder.

29.17 **Intentionally Omitted.**

29.18 **Notices.** All notices, demands, statements, designations, approvals or other communications (collectively, “**Notices**”) given or required to be given by either party to the other hereunder or by law shall be in writing, shall be (A) sent by United States certified or registered mail, postage prepaid, return receipt requested (“**Mail**”), (B) delivered by a nationally recognized overnight courier, or (C) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in Section 10 of the Summary, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth below, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (i) three (3) business days after the date it is posted if sent by Mail, (ii) the date the overnight courier delivery is made, or (iii) the date personal delivery is made. As of the date of this Lease, any Notices to Landlord must be sent, transmitted, or delivered, as the case may be, to the following addresses:

HCP, Inc.  
1920 Main Street, Suite 1200  
Irvine, CA 92614  
Attention: Legal Department

with a copy to:

HCP Life Science Estates  
950 Tower Lane, Suite 1650  
Foster City, CA 94404  
Attention: Jonathan M. Bergschneider

and

Allen Matkins Leck Gamble Mallory & Natsis LLP  
1901 Avenue of the Stars, Suite 1800  
Los Angeles, California 90067  
Attention: Anton N. Natsis, Esq.

29.19 **Joint and Several.** If there is more than one tenant, the obligations imposed upon Tenant under this Lease shall be joint and several.

29.20 **Authority.** If Tenant is a corporation, trust or partnership, Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in the State of California and that Tenant has full right and authority to execute and deliver this Lease and that each person signing on behalf of Tenant is authorized to do so.

29.21 **Attorneys’ Fees.** In the event that either Landlord or Tenant should bring suit for the possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provision of this Lease or for any other relief against the other, then all costs and expenses, including reasonable attorneys’ fees, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment.

29.22 **Governing Law: WAIVER OF TRIAL BY JURY.** This Lease shall be construed and enforced in accordance with the laws of the State of California. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LANDLORD AND TENANT HEREBY CONSENT TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW, AND (III) IN THE INTEREST OF SAVING TIME AND EXPENSE, TRIAL WITHOUT A JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER OR THEIR SUCCESSORS IN RESPECT OF ANY MATTER ARISING OUT OF OR IN CONNECTION WITH THIS LEASE, THE RELATIONSHIP OF

LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE, OR ANY EMERGENCY OR STATUTORY REMEDY. IN THE EVENT LANDLORD COMMENCES ANY SUMMARY PROCEEDINGS OR ACTION FOR NONPAYMENT OF BASE RENT OR ADDITIONAL RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF ANY NATURE OR DESCRIPTION (UNLESS SUCH COUNTERCLAIM SHALL BE MANDATORY) IN ANY SUCH PROCEEDING OR ACTION, BUT SHALL BE RELEGATED TO AN INDEPENDENT ACTION AT LAW.

29.23 **Submission of Lease.** Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

29.24 **Brokers.** Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the real estate brokers or agents specified in Section 12 of the Summary (the "**Brokers**"), and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the Brokers, occurring by, through, or under the indemnifying party. The terms of this Section 29.24 shall survive the expiration or earlier termination of the Lease Term.

29.25 **Independent Covenants.** This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

29.26 **Project or Building Name, Address and Signage.** Landlord shall have the right at any time to change the name and/or address of the Project or Building (and Landlord shall reimburse Tenant its actual, reasonable costs incurred as a result of such change, if any) and, subject to Section 23.1, to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire. Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord.

29.27 **Counterparts.** This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

29.28 **Good Faith.** Except (i) for matters for which there is a standard of consent or discretion specifically set forth in this Lease; (ii) matters which could have an adverse effect on the Building Structure or the Building Systems, or which could affect the exterior appearance of the Building, or (iii) matters covered by Article 4 (Additional Rent), or Article 19 (Defaults; Remedies) of this Lease (collectively, the "**Excepted Matters**"), any time the consent of Landlord or Tenant is required, such consent shall not be unreasonably withheld or delayed, and, except with regard to the Excepted Matters, whenever this Lease grants Landlord or Tenant the right to take action, exercise discretion, establish rules and regulations or make an allocation or other determination, Landlord and Tenant shall act reasonably and in good faith.

#### 29.29 **Development of the Project**

29.29.1 **Subdivision.** Landlord reserves the right to subdivide all or a portion of the buildings and Common Areas, so long as the same does not interfere with Tenant's use of or access to the Premises or Tenant's parking rights. Tenant agrees to execute and deliver, upon demand by Landlord and in the form requested by Landlord, any additional documents needed to conform this Lease to the circumstances resulting from a subdivision and any all maps in connection therewith, so long as the same does not increase Tenant's obligations or decrease Tenant's rights under this Lease. Notwithstanding anything to the contrary set forth in this Lease, the separate ownership of any buildings and/or Common Areas by an entity other than Landlord shall not affect the calculation of Direct Expenses or Tenant's payment of Tenant's Share of Direct Expenses.

---

29.29.2 **Construction of Property and Other Improvements.** Tenant acknowledges that portions of the Project may be under construction following Tenant's occupancy of the Premises, and that such construction may result in levels of noise, dust, obstruction of access, etc. which are in excess of that present in a fully constructed project. Tenant hereby waives any and all rent offsets or claims of constructive eviction which may arise in connection with such construction, so long as the same does not interfere with Tenant's use of or access to the Premises or Tenant's parking rights.

29.30 **No Violation.** Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant shall protect, defend, indemnify and hold Landlord harmless against any claims, demands, losses, damages, liabilities, costs and expenses, including, without limitation, reasonable attorneys' fees and costs, arising from Tenant's breach of this warranty and representation.

29.31 **Transportation Management.** Tenant shall fully comply with all present or future programs intended to manage parking, transportation or traffic in and around the Project and/or the Building, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities. Such programs may include, without limitation: (i) restrictions on the number of peak-hour vehicle trips generated by Tenant; (ii) increased vehicle occupancy; (iii) implementation of an in-house ridesharing program and an employee transportation coordinator; (iv) working with employees and any Project, Building or area-wide ridesharing program manager; (v) instituting employer-sponsored incentives (financial or in-kind) to encourage employees to rideshare; and (vi) utilizing flexible work shifts for employees.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

LANDLORD:

HCP, INC.,  
a Maryland corporation

By: /s/ Jonathan M. Bergschneider  
Name: Jonathan M. Bergschneider  
Its: Executive Vice President

TENANT:

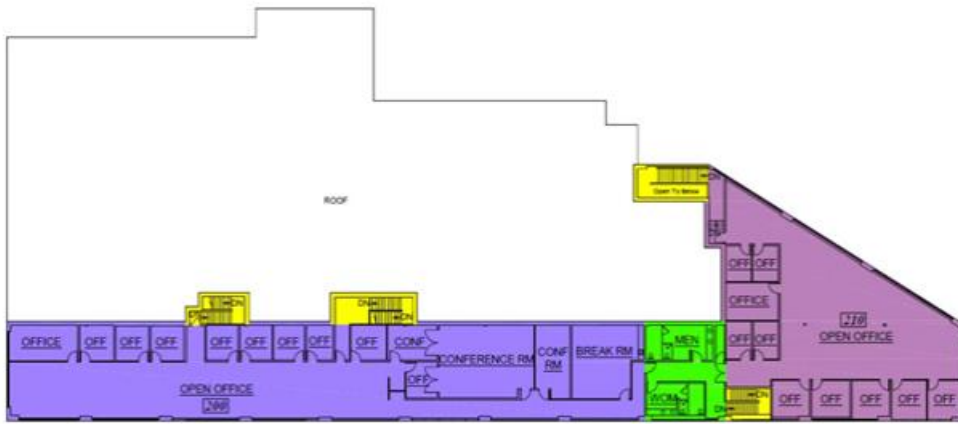
SUTRO BIOPHARMA, INC.,  
a Delaware corporation

By: /s/ William J. Newell  
Name: William J. Newell  
Its: Chief Executive Officer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_



**EXHIBIT A**  
**OUTLINE OF PREMISES**



**EXHIBIT B**

**TENANT WORK LETTER**

Notwithstanding any provision in the Lease to the contrary, subject to the terms of this Tenant Work Letter, below, Tenant shall be entitled to a tenant improvement allowance (the "**Tenant Improvement Allowance**") in the total amount of \$245,440.00 (i.e., \$10.00 per rentable square foot of the Premises) for the costs relating to the design and construction of Tenant's improvements or work related thereto in the Premises, which may be in the form of several projects performed over time (the "**Tenant Improvements**"). The Tenant Improvements shall be constructed as alterations in accordance with the terms and conditions of Article 8 of this Lease; provided, however, Tenant shall not be required to obtain a lien or completion bond for the Tenant Improvements. Subject to the provisions of this Tenant Work Letter, during the course of construction of the Tenant Improvements in accordance with Article 8 of this Lease, but not more often than monthly, Landlord shall deliver a check made payable to Tenant in payment for the applicable portion of the Tenant Improvement Allowance, provided that (i) if applicable, Tenant's architect delivers to Landlord a certificate, in a form reasonably acceptable to Landlord, certifying that the construction of the Tenant Improvements covered by such request has been completed, (ii) Tenant delivers to Landlord properly executed unconditional mechanic's lien releases in compliance with both California Civil Code Section 8134 and Section 8138, (iii) Landlord has determined that no substandard work exists which adversely affects the mechanical, electrical, plumbing, heating, ventilating and air conditioning, life-safety or other systems of the Building, the curtain wall of the Building, the structure or exterior appearance of the Building, or any other tenant's use of such other tenant's leased premises in the Building, and (iv) Tenant delivers to Landlord all invoices, marked as having been paid, from all general contractors, subcontractors, laborers, materialmen, and suppliers used by Tenant for labor rendered and materials delivered to the Premises in connection with the Tenant Improvements covered by such request. In no event shall Landlord be obligated to disburse any portion of the Tenant Improvement Allowance if requested by Tenant subsequent to December 1, 2017, nor shall Landlord be obligated to disburse any amount in excess of the Tenant Improvement Allowance in connection with the construction of the Tenant Improvements.

EXHIBIT B

-1-

**EXHIBIT C**  
**NOTICE OF LEASE TERM DATES**

To: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Re: Lease dated \_\_\_\_\_, 20\_\_ between \_\_\_\_\_, a \_\_\_\_\_ ("Landlord"), and \_\_\_\_\_, a \_\_\_\_\_ ("Tenant") concerning Suite \_\_\_\_\_ on floor(s) \_\_\_\_\_ of the building located at \_\_\_\_\_, California.

Gentlemen:

In accordance with the Lease (the "**Lease**"), we wish to advise you and/or confirm as follows:

1. The Lease Term shall commence on or has commenced on \_\_\_\_\_ for a term of \_\_\_\_\_ ending on \_\_\_\_\_.
2. Rent commenced to accrue on \_\_\_\_\_, in the amount of \_\_\_\_\_.
3. If the Lease Commencement Date is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter, with the exception of the final billing, shall be for the full amount of the monthly installment as provided for in the Lease.
4. Your rent checks should be made payable to \_\_\_\_\_ at \_\_\_\_\_.
5. The exact number of rentable/usable square feet within the Premises is \_\_\_\_\_ square feet.
6. Tenant's Share as adjusted based upon the exact number of square feet within the Premises is \_\_\_\_\_%.

**"Landlord":**

\_\_\_\_\_  
a \_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Agreed to and Accepted as  
of \_\_\_\_\_, 20\_\_.

**"Tenant":**

\_\_\_\_\_  
a \_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT D**

**FORM OF TENANT'S ESTOPPEL CERTIFICATE**

The undersigned as Tenant under that certain Lease (the "Lease") made and entered into as of \_\_\_\_\_, 20\_\_ by and between \_\_\_\_\_ as Landlord, and the undersigned as Tenant, for Premises consisting of the entire building located at \_\_\_\_\_, California, certifies as follows:

1. Attached hereto as **Exhibit A** is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in **Exhibit A** represent the entire agreement between the parties as to the Premises.
2. The undersigned currently occupies the Premises described in the Lease, the Lease Term commenced on \_\_\_\_\_, and the Lease Term expires on \_\_\_\_\_, and the undersigned has no option to terminate or cancel the Lease or to purchase all or any part of the Premises, the Building and/or the Project, except as expressly set forth in the Lease.
3. Base Rent became payable on \_\_\_\_\_.
4. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in **Exhibit A**.
5. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows:
6. Tenant shall not modify the documents contained in **Exhibit A** without the prior written consent of Landlord's mortgagee.
7. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through \_\_\_\_\_. The current monthly installment of Base Rent is \$ \_\_\_\_\_.
8. To Tenant's actual knowledge, without inquiry, all conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied and Landlord is not in default thereunder. In addition, the undersigned has not delivered any notice to Landlord regarding a default by Landlord thereunder. The Lease does not require Landlord to provide any rental concessions or to pay any leasing brokerage commissions except as expressly set forth therein.
9. No rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord except as provided in the Lease. Neither Landlord, nor its successors or assigns, shall in any event be liable or responsible for, or with respect to, the retention, application and/or return to Tenant of any security deposit paid to any prior landlord of the Premises, whether or not still held by any such prior landlord, unless and until the party from whom the security deposit is being sought, whether it be a lender, or any of its successors or assigns, has actually received for its own account, as landlord, the full amount of such security deposit.
10. To Tenant's actual knowledge, without inquiry, as of the date hereof, there are no existing defenses or offsets, or, to the undersigned's knowledge, claims or any basis for a claim, that the undersigned has against Landlord.

EXHIBIT D

11. If Tenant is a corporation or partnership, Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

12. There are no actions pending against the undersigned under the bankruptcy or similar laws of the United States or any state.

13. Tenant is in full compliance with all federal, state and local laws, ordinances, rules and regulations affecting its use of the Premises, including, but not limited to, those laws, ordinances, rules or regulations relating to hazardous or toxic materials. Tenant has never permitted its agents, employees or contractors to engage in the generation, manufacture, treatment, use, storage, disposal or discharge of any hazardous, toxic or dangerous waste, substance or material in, on, under or about the Project or the Premises or any adjacent premises or property in violation of any federal, state or local law, ordinance, rule or regulation.

14. To the undersigned's knowledge, all tenant improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by the undersigned and all reimbursements and allowances due to the undersigned under the Lease in connection with any tenant improvement work have been paid in full. All work (if any) in the common areas required by the Lease to be completed by Landlord has been completed and all parking spaces required by the Lease have been furnished and/or all parking ratios required by the Lease have been met.

The undersigned acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of making such loan or acquiring such property.

Executed at \_\_\_\_\_ on the \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**"Tenant":**

\_\_\_\_\_ a \_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EXHIBIT D

**EXHIBIT E**  
**ENVIRONMENTAL QUESTIONNAIRE**  
**ENVIRONMENTAL QUESTIONNAIRE**  
**FOR COMMERCIAL AND INDUSTRIAL PROPERTIES**

**Property Name:** \_\_\_\_\_

**Property Address:** \_\_\_\_\_

**Instructions:** The following questionnaire is to be completed by the Lessee representative with knowledge of the planned operations for the specified building/location. Please print clearly and attach additional sheets as necessary.

1.0 PROCESS INFORMATION

Describe planned use, and include brief description of manufacturing processes employed.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2.0 HAZARDOUS MATERIALS

Are hazardous materials used or stored? If so, continue with the next question. If not, go to Section 3.0.

2.1 Are any of the following materials handled on the Property? Yes  No

(A material is handled if it is used, generated, processed, produced, packaged, treated, stored, emitted, discharged, or disposed.) If so, complete this section. If this question is not applicable, skip this section and go on to Section 5.0.

- |   |                                    |  |
|---|------------------------------------|--|
| <input type="checkbox"/> Explosives             | <input type="checkbox"/> Fuels     | <input type="checkbox"/> Oils                  |
| <input type="checkbox"/> Solvents               | <input type="checkbox"/> Oxidizers | <input type="checkbox"/> Organics/Inorganics   |
| <input type="checkbox"/> Acids                  | <input type="checkbox"/> Bases     | <input type="checkbox"/> Pesticides            |
| <input type="checkbox"/> Gases                  | <input type="checkbox"/> PCBs      | <input type="checkbox"/> Radioactive Materials |
| <input type="checkbox"/> Other (please specify) |                                    |  |

2.2 If any of the groups of materials checked in Section 2.1, please list the specific material(s), use(s), and quantity of each chemical used or stored on the site in the Table below. If convenient, you may substitute a chemical inventory and list the uses of each of the chemicals in each category separately.

<u>Material</u>	<u>Physical State (Solid, Liquid, or Gas)</u>	<u>Usage</u>	<u>Container Size</u>	<u>Number of Containers</u>	<u>Total Quantity</u>
-----------------	---	--------------	-----------------------	-----------------------------	-----------------------

2.3 Describe the planned storage area location(s) for these materials. Please include site maps and drawings as appropriate.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3.0 HAZARDOUS WASTES

Are hazardous wastes generated?

Yes  No

If yes, continue with the next question. If not, skip this section and go to section 4.0.

3.1 Are any of the following wastes generated, handled, or disposed of (where applicable) on the Property?

- |   |   |
|---|---|
| <input type="checkbox"/> Hazardous wastes | <input type="checkbox"/> Industrial Wastewater  |
| <input type="checkbox"/> Waste oils       | <input type="checkbox"/> PCBs                   |
| <input type="checkbox"/> Air emissions    | <input type="checkbox"/> Sludges                |
| <input type="checkbox"/> Regulated Wastes | <input type="checkbox"/> Other (please specify) |

3.2 List and quantify the materials identified in Question 3-1 of this section.

<u>WASTE GENERATED</u>	<u>RCRA listed Waste?</u>	<u>SOURCE</u>	<u>APPROXIMATE MONTHLY QUANTITY</u>	<u>WASTE CHARACTERIZATION</u>	<u>DISPOSITION</u>
----------------------------	-------------------------------	---------------	---	-----------------------------------	--------------------

3.3 Please include name, location, and permit number (e.g. EPA ID No.) for transporter and disposal facility, if applicable). Attach separate pages as necessary.

<u>Transporter/Disposal Facility Name</u>	<u>Facility Location</u>	<u>Transporter (I) or Disposal (D) Facility</u>	<u>Permit Number</u>
---	--------------------------	---	----------------------

3.4 Are pollution controls or monitoring employed in the process to prevent or minimize the release of wastes into the environment?  
Yes  No

3.5 If so, please describe.

---



---



---

4.0 USTS/ASTS

4.1 Are underground storage tanks (USTs), aboveground storage tanks (ASTs), or associated pipelines used for the storage of petroleum products, chemicals, or liquid wastes present on site (lease renewals) or required for planned operations (new tenants)?  
Yes  No

If not, continue with section 5.0. If yes, please describe capacity, contents, age, type of the USTs or ASTs, as well any associated leak detection/spill prevention measures. Please attach additional pages if necessary.

<u>Capacity</u>	<u>Contents</u>	<u>Year Installed</u>	<u>Type (Steel, Fiberglass, etc)</u>	<u>Associated Leak Detection / Spill Prevention Measures*</u>
-----------------	-----------------	---------------------------	--	---

\*Note: The following are examples of leak detection / spill prevention measures:

- |                           |                          |                       |
|---------------------------|--------------------------|-----------------------|
| Integrity testing         | Inventory reconciliation | Leak detection system |
| Overfill spill protection | Secondary containment    | Cathodic protection   |

- 
- 4.2 Please provide copies of written tank integrity test results and/or monitoring documentation, if available.
- 4.3 Is the UST/AST registered and permitted with the appropriate regulatory agencies? Yes  No   
If so, please attach a copy of the required permits.
- 4.4 If this Questionnaire is being completed for a lease renewal, and if any of the USTs/ASTs have leaked, please state the substance released, the media(s) impacted (e.g., soil, water, asphalt, etc.), the actions taken, and all remedial responses to the incident.
- 
- 
- 

- 4.5 If this Questionnaire is being completed for a lease renewal, have USTs/ASTs been removed from the Property? Yes  No   
If yes, please provide any official closure letters or reports and supporting documentation (e.g., analytical test results, remediation report results, etc.).
- 4.6 For Lease renewals, are there any above or below ground pipelines on site used to transfer chemicals or wastes? Yes  No   
For new tenants, are installations of this type required for the planned operations? Yes  No

If yes to either question, please describe.

---

---

---

#### 5.0 ASBESTOS CONTAINING BUILDING MATERIALS

Please be advised that an asbestos survey may have been performed at the Property. If provided, please review the information that identifies the locations of known asbestos containing material or presumed asbestos containing material. All personnel and appropriate subcontractors should be notified of the presence of these materials, and informed not to disturb these materials. Any activity that involves the disturbance or removal of these materials must be done by an appropriately trained individual/contractor.

#### 6.0 REGULATORY

- 6.1 Does the operation have or require a National Pollutant Discharge Elimination System (NPDES) or equivalent permit?  
Yes  No

If so, please attach a copy of this permit.

- 6.2 Has a Hazardous Materials Business Plan been developed for the site? Yes  No

If so, please attach a copy.

EXHIBIT E



---

**CERTIFICATION**

I am familiar with the real property described in this questionnaire. By signing below, I represent and warrant that the answers to the above questions are complete and accurate to the best of my knowledge. I also understand that Lessor will rely on the completeness and accuracy of my answers in assessing any environmental liability risks associated with the property.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Telephone: \_\_\_\_\_

EXHIBIT E

---

**EXHIBIT F**  
**TENANT'S PROPERTY**

The following items shall be deemed "Tenant's Property":

1. All moveable furniture and equipment that is not "built-in".
2. Moveable lab casework (other than "built-in" lab casework), including moveable lab benches.
3. Servers, server racks and back-up batteries.
4. Furniture.

EXHIBIT F

-1-

---

**LEASE**

**EDGEWATER BUSINESS PARK**

HCP, INC.,  
a Maryland corporation,  
as Landlord,  
and  
SUTRO BIOPHARMA, INC.,  
a Delaware corporation,  
as Tenant.

TABLE OF CONTENTS

	<u>Page</u>
1. PREMISES, BUILDING, PROJECT, AND COMMON AREAS	3
2. LEASE TERM; OPTION TERM	4
3. BASE RENT	6
4. ADDITIONAL RENT	6
5. USE OF PREMISES	11
6. SERVICES AND UTILITIES	15
7. REPAIRS	17
8. ADDITIONS AND ALTERATIONS	19
9. COVENANT AGAINST LIENS	20
10. INSURANCE	20
11. DAMAGE AND DESTRUCTION	22
12. NONWAIVER	23
13. CONDEMNATION	23
14. ASSIGNMENT AND SUBLETTING	23
15. SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES	26
16. HOLDING OVER	27
17. ESTOPPEL CERTIFICATES	27
18. SUBORDINATION	28
19. DEFAULTS; REMEDIES	28
20. COVENANT OF QUIET ENJOYMENT	30
21. SECURITY DEPOSIT	30
22. COMMUNICATIONS AND COMPUTER LINE	30
23. SIGNS	30
24. COMPLIANCE WITH LAW	31
25. LATE CHARGES	31
26. LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT	32
27. ENTRY BY LANDLORD	32
28. TENANT PARKING	32
29. MISCELLANEOUS PROVISIONS	32
EXHIBITS	
A OUTLINE OF PREMISES	
B TENANT WORK LETTER	
C FORM OF NOTICE OF LEASE TERM DATES	
D FORM OF TENANT'S ESTOPPEL CERTIFICATE	
E ENVIRONMENTAL QUESTIONNAIRE	
F TENANT'S PROPERTY	

INDEX

	<u>Page(s)</u>
Accountant	11
Advocate Arbitrators	5
Alterations	19
Base Rent	6
Brokers	36
Building	3
Common Areas	3
Comparable Buildings	5
Contemplated Effective Date	25
Contemplated Transfer Space	25
Direct Expenses	6
Disputed Amounts	33
Estimate	10
Estimate Statement	10
Estimated Direct Expenses	10
Excepted Matters	36
Expense Year	7
Force Majeure	34
Intention to Transfer Notice	25
Landlord	32
Landlord Parties	20
Lease	1
Lease Commencement Date	4
Lease Expiration Date	4
Lease Term	4
Lease Year	4
Lines	30
Mail	35
Net Worth	26
Neutral Arbitrator	5
Nine Month Period	25
Notices	35
Objectionable Name	31
Operating Expenses	6, 7
Option Conditions	4
Option Rent	4
Option Term	4
Original Tenant	4
Outside Agreement Date	5
Premises	3
Project	3
Rooftop Equipment	17
Security Deposit	30
Sign Specifications	31
Statement	10
Subject Space	24
Summary	1
Tax Expenses	9
Tenant	32
Tenant Signage	31

---

Tenant's Accountant	10
Tenant's Share	9
Transfer Notice	24
Transfer Premium	24
Transferee	23



**AIR COMMERCIAL REAL ESTATE ASSOCIATION  
STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - NET**

**1. Basic Provisions ("Basic Provisions").**

1.1 **Parties:** This Lease ("**Lease**"), dated for reference purposes only May 18, 2011, is made by and between Alemanya Plaza, LLC a California limited liability company ("**Lessor**") and Sutro Biopharma, Inc., a Delaware corporation ("**Lessee**"), (collectively the "**Parties**", or individually a "**Party**").

1.2(a) **Premises:** That certain portion of the Project (as defined below), including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 894 Industrial Road, located in the City of San Carlos, County of San Mateo, State of \_\_\_\_\_, with zip code \_\_\_\_\_, as outlined on Exhibit A attached hereto ("**Premises**") and generally described as (describe briefly the nature of the Premises): Approximately 9,740 square feet of office, laboratory, clean room, warehouse, and utility rooms. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to any utility raceways of the building containing the Premises ("**Building**") and to the common Areas (as defined in Paragraph 2.7 below), but shall not have any rights to the roof or exterior walls of the Building or to any other buildings in the Project, except as needed for maintenance. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "**Project**." (See also Paragraph 2)

1.2(b) **Parking:** See Section 58 unreserved vehicle parking spaces. (See also Paragraph 2.6)

1.3 **Term:** Five (5) years and Zero (0) months ("**Original Term**") commencing the later of August 1, 2011 and the date Landlord has completed its work described in Section 53 ("**Commencement Date**") and ending July 31, 2016 ("**Expiration Date**"). (See also Paragraph 3)

1.4 **Early Possession:** ~~If the Premises are available~~ Lessee may have ~~non-exclusive~~ possession of the Premises commencing May 1, 2011 on the date this Lease is fully executed ("**Early Possession Date**"). (See also Paragraphs 3.2 and 3.3)

1.5 **Base Rent:** \$8,279.00 per month ("**Base Rent**"), payable on the First day of each month commencing August 1, 2011 on the Commencement Date. (See also Paragraph 4)

If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. See Paragraph 50

1.6 **Lessee's Share of Common Area Operating Expenses:** Seventy two point fifteen percent (72.15%) ("**Lessee's Share**"). In the event that the size of the Premises and/or the Project are modified during the term of this Lease, Lessor shall recalculate Lessee's Share to reflect such modification.

**1.7 Base Rent and Other Monies Paid Upon Execution:**

(a) **Base Rent:** \$8,279.00 for the first month of the Term ~~period August 1, 2011 through August 31, 2011~~.

(b) **Common Area Operating Expenses:** \$2,532.40 for the ~~period May 1, 2011 through May 31, 2011~~ month following the Early Possession Date.

(c) **Security Deposit:** \$19,619.00 ("**Security Deposit**"). (See also Paragraph 5)

(d) **Other:** \$ \_\_\_\_\_ for \_\_\_\_\_.

(e) **Total Due Upon Execution of this Lease:** \$30,430.40.

1.8 **Agreed Use:** Office, biotechnology, R&D, manufacturing, GMP Pilot Plant, storage, marketing and other related legal uses (See also Paragraph 6)

1.9 **Insuring Party.** Lessor is the "**Insuring Party**". (See also Paragraph 8)

1.10 **Real Estate Brokers:** (See also Paragraph 15)

(a) **Representation:** The following real estate brokers (the "**Brokers**") and brokerage relationships exist in this transaction (check applicable boxes):

Cornish & Carey Commercial, Newmark Knight Frank represents Lessor exclusively ("**Lessor's Broker**");

Kidder Mathews represents Lessee exclusively ("**Lessee's Broker**"); or

\_\_\_\_\_ represents both Lessor and Lessee ("**Dual Agency**").

(b) **Payment to Brokers:** Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of per agreement or \_\_\_\_\_% of the total Base Rent for the brokerage services rendered by the Brokers).

1.11 **Guarantor.** The obligations of the Lessee under this Lease are to be guaranteed by \_\_\_\_\_ ("**Guarantor**"). (See also Paragraph 37)

1.12 **Attachments.** Attached hereto are the following, all of which constitute a part of this Lease:

\_\_\_\_\_  
JT

\_\_\_\_\_  
WJN

\_\_\_\_\_  
INITIALS

\_\_\_\_\_  
INITIALS





- an Addendum consisting of Paragraphs 50 through 66;
- a site plan depicting the Premises;
- a site plan depicting the Project;
- a current set of the Rules and Regulations for the Project;
- a current set of the Rules and Regulations adopted by the owners' association;
- a Work Letter;
- other (specify): Disclosure Requirements.

## 2. Premises.

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. While the approximate square footage of the Premises may have been used in the marketing of the Premises for purposes of comparison, the Base Rent stated herein is NOT tied to square footage and is not subject to adjustment should the actual size be determined to be different. **NOTE: Lessee is advised to verify the actual size prior to executing this Lease.**

2.2 **Condition.** Lessor shall deliver that portion of the Premises contained within the Building ("**Unit**") to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("**Start Date**"), and, ~~so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect within thirty days following the Start Date,~~ warrants, subject to Addendum, that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems serving the office area of the Premises known as Unit #2 ("**HVAC**"), loading doors, sump pumps, if any, and all other such elements in the Unit, other than those constructed by Lessee, shall be in good operating condition on said date, that the ~~structural elements of the roof, bearing walls and foundation of the Unit shall be free of material defects, and that the Unit does not contain hazardous levels of any mold or fungi defined as toxic under applicable state or federal law. If a non-compliance with such warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Unit. If Lessee does not give Lessor the required notice within the appropriate warranty period, Lessee cannot thereafter demand correction under this Section. ~~correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense (except for the repairs to the fire sprinkler systems, roof, foundations, and/or bearing walls—see Paragraph 7).~~~~

2.3 **Compliance.** Lessor warrants that to the best of its knowledge the improvements on the Premises and the Common Areas comply with the building codes that were in effect at the time that each such improvement, or portion thereof, was constructed, and also with all applicable laws, covenants or restrictions of record, regulations, and ordinances in effect on the Start Date ("**Applicable Requirements**"). Said warranty does not apply to the particular use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee's particular use (see Paragraph 49), or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. **NOTE: Lessee is responsible for determining whether or not the Applicable Requirements and especially the zoning are appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed.** If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of non-compliance with this warranty within 6 months following the Start Date, Lessee cannot thereafter demand correction under this Section. ~~correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Unit, Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building ("**Capital Expenditure**"), Lessor and Lessee shall allocate the cost of such work as follows:~~

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor shall pay for such Capital Expenditure and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease or any extension thereof, on the date that on which the Base Rent is due, an amount ~~equal to 1/44th of the portion of such costs~~ reasonably attributable to the Premises pursuant to the formula set out in Paragraph 7.1.(d). ~~Lessee shall pay interest on the balance but may prepay its obligation at any time. If, however, such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.~~

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall either: (i) immediately cease such changed use or intensity of use and/or take such other steps as may be necessary to eliminate the requirement for such Capital Expenditure, or (ii) complete such Capital Expenditure at its own expense. Lessee shall not have any right to terminate this Lease.

2.4 **Acknowledgements.** Lessee acknowledges that: (a) it has been given an opportunity to inspect and measure the Premises, (b) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the size and condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (c) Lessee has made such investigation as it deems necessary with reference to such matters ~~and assumes all responsibility therefor as the same relate to its occupancy of the Premises,~~ (d) it is not relying on any representation as to the

INITIALS

©1999 - AIR COMMERCIAL REAL ESTATE ASSOCIATION

INITIALS

FORM MTN-9-5/09E

size of the Premises made by Brokers or Lessor, (e) the square footage of the Premises was not material to Lessee's decision to lease the Premises and pay the Rent stated herein, and (f) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

**2.5 Lessee as Prior Owner/Occupant.** The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

**2.6 Vehicle Parking.** Lessee shall be entitled to use the number of parking spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "**Permitted Size Vehicles**." Lessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided in Paragraph 2.9. No vehicles other than Permitted Size Vehicles may be parked in the Common Area without the prior written permission of Lessor. In addition:

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) Lessee shall not service or store any vehicles in the Common Areas.

(c) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

**2.7 Common Areas - Definition.** The term "**Common Areas**" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Unit that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

**2.8 Common Areas - Lessee's Rights.** Lessor grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

**2.9 Common Areas - Rules and Regulations.** Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations ("**Rules and Regulations**") for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Lessee agrees to abide by and conform to all such Rules and Regulations, and shall use its best efforts to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said Rules and Regulations by other tenants of the Project.

**2.10 Common Areas - Changes.** Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Project to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof;

and  
(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Project as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

### 3. Term.

**3.1 Term.** The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

**3.2 Early Possession.** ~~Any provision herein granting Lessee Early Possession of the Premises is subject to and conditioned upon the Premises being available for such possession prior to the Commencement Date.~~ Any grant of Early Possession ~~only~~ conveys an ~~non~~-exclusive right to occupy the Premises. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such Early Possession. All other terms of this Lease (including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses, Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such Early Possession shall not affect the Expiration Date.

**3.3 Delay In Possession.** Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the ~~Commencement~~ Start Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or change the Expiration Date. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of the delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed, but minus any days of delay caused by the acts or omissions of Lessee. If possession is not delivered within 60 days after the ~~Commencement~~ Start Date, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the ~~Commencement~~ Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would

otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within 4 months after the ~~Commencement~~ Start Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

    **JT**      
INITIALS

    **WJN**      
INITIALS

**3.4 Lessee Compliance.** Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

#### **4. Rent.**

**4.1 Rent Defined.** All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").

**4.2 Common Area Operating Expenses.** Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "**Common Area Operating Expenses**" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Project, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, and if necessary the replacement, of the following:

(aa) The Common Areas and Common Area improvements, including parking areas, loading and unloading areas, trash areas, roadways, parkways, walkways, driveways, landscaped areas, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators, roofs, exterior walls of the buildings, building systems and roof drainage systems.

(bb) Exterior signs and any tenant directories.

(cc) Any fire sprinkler systems.

(dd) All other areas and improvements that are within the exterior boundaries of the Project but outside of the Premises and/or any other space occupied by a tenant.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas and any utilities not separately metered.

(iii) The cost of trash disposal, pest control services, property management, security services, owners' association dues and fees, the cost to repaint the exterior of any structures and the cost of any environmental inspections.

(iv) ~~Reserves set aside for maintenance, repair and/or replacement of Common Area improvements and equipment.~~

(v) Real Property Taxes (as defined in Paragraph 10).

(vi) The cost of the premiums for the insurance maintained by Lessor pursuant to Paragraph 8.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Auditors', accountants' and attorneys' fees and costs related to the operation, maintenance, repair and replacement of the Project.

(ix) The cost of any capital improvement to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such capital improvement over the useful life of the capital item ~~a 12 year period and Lessee shall not be required to pay more than Lessee's Share of 1/144th of the cost of such capital improvement in any given month.~~

(x) The cost of any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Unit, the Building or to any other building in the Project or to the operation, repair and maintenance thereof, shall be allocated entirely to such Unit, Building, or other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Project.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Project already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses is payable monthly on the same day as the Base Rent is due hereunder. The amount of such payments shall be based on Lessor's estimate of the annual Common Area Operating Expenses. Within 60 days after written request (but not more than once each year) Lessor shall deliver to Lessee a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses for the preceding year. If Lessee's payments during such year exceed Lessee's Share, Lessor shall credit the amount of such over-payment against Lessee's future payments. If Lessee's payments during such year were less than Lessee's Share, Lessee shall pay to Lessor the amount of the deficiency within 430 days after delivery by Lessor to Lessee of the statement.

(e) Common Area Operating Expenses shall not include any expenses paid by any tenant directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or insurance proceeds.

**4.3 Payment.** Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. All monetary amounts shall be rounded to the nearest whole dollar. In the event that any invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessee shall be obligated to pay the amount set forth in this Lease. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of \$25 in addition to any Late Charge and Lessor, at its option, may require all future Rent be paid by cashier's check. Payments will be applied first to accrued late charges and attorney's fees, second to accrued interest, then to Base Rent and Common Area Operating Expenses, and any remaining amount to any other outstanding charges or costs.

**5. Security Deposit.** Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount already due Lessor, for Rents which will be due in the future, and/ or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the

    **JT**    

**PAGE 4 OF 17**

    **WJN**    

    **INITIALS**    

    **INITIALS**

full amount required by this Lease. ~~If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the Initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition.~~ Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 30 days after the expiration or termination of this Lease, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

## 6. Use.

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Other than guide, signal and seeing eye dogs, Lessee shall not keep or allow in the Premises any pets, animals, birds, fish, or reptiles. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the Building or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Project. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.

### 6.2 Hazardous Substances.

(a) **Reportable Uses Require Consent.** The term "**Hazardous Substance**" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, ~~either by itself or in combination with other materials expected to be on the Premises,~~ is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "**Reportable Use**" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, ~~is not a Reportable Use,~~ and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. ~~In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.~~

(b) **Duty to Inform Lessor.** If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** Lessee shall not cause or permit its agents or employees to cause any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) in violation of Applicable Requirements and shall promptly, at Lessee's expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused ~~or materially contributed to by Lessee,~~ or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, ~~or any third party.~~

(d) **Lessee Indemnification.** Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee in violation of Applicable Requirements, ~~or any third party~~ (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from areas outside of the Project not caused or contributed to by Lessee). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created ~~or suffered by Lessee,~~ and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) **Lessor Indemnification.** Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which are suffered as a direct result of Hazardous Substances on the Premises prior to Lessee taking possession or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) **Investigations and Remediations.** Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Lessee taking possession; ~~unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment.~~ Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) **Lessor Termination Option.** If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor shall ~~may, at Lessor's option, either~~ (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible





at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 60 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

**6.3 Lessee's Compliance with Applicable Requirements.** Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to such Requirements, without regard to whether said Requirements are now in effect or become effective after the Start Date. Lessee shall, within 10 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements. Likewise, Lessee shall immediately give written notice to Lessor of: (i) any water damage to the Premises and any suspected seepage, pooling, dampness or other condition conducive to the production of mold; or (ii) any mustiness or other odors that might indicate the presence of mold in the Premises.

**6.4 Inspection; Compliance.** Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable notice and subject to Lessee's reasonable security requirements, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a Hazardous Substance Condition (see Paragraph 9.1) is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination and is Lessee's responsibility hereunder. In addition, Lessee shall provide copies of all relevant material safety data sheets (MSDS) to Lessor within 10 days of the receipt of written request therefor.

## **7. Maintenance; Repairs, Utility Installations; Trade Fixtures and Alterations.**

### **7.1 Lessee's Obligations.**

(a) **In General.** Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices on the HVAC Unit #2, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) **Service Contracts.** Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment exclusively serving the Premises, (ii) boiler and pressure vessels, and (iii) clarifiers. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) **Failure to Perform.** If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly pay to Lessor a sum equal to 115% of the cost thereof.

(d) **Replacement.** Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is the useful life of the item ~~144 (ie. 1/144th of the cost per month)~~. Lessee shall pay Interest on the unamortized balance of 8% per annum but may prepay its obligation at any time.

**7.2 Lessor's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, Common Area fire alarm and/or smoke detection systems, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease,

### **7.3 Utility Installations; Trade Fixtures; Alterations.**

(a) **Definitions.** The term "Utility Installations" refers to all floor and window coverings, air and/or vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).



(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Alterations or Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, will not adversely affect the electrical, plumbing, HVAC, and/or life safety systems, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 month's Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount in excess of \$200,000 as to Sutro Biopharma, but \$50,000 as to any other tenant one month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) **Liens; Bonds.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialman's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

#### 7.4 Ownership; Removal; Surrender; and Restoration.

(a) **Ownership.** Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Removal.** By delivery to Lessee of written notice from Lessor at the time it consents thereto ~~not earlier than 90 and not later than 30 days prior to the end of the term of this Lease,~~ Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) **Surrender; Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall also completely remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, ~~or any third party~~ to the extent required by Applicable Requirements (except Hazardous Substances which were deposited via underground migration from areas outside of the Project) ~~even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements~~ Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

### 8. Insurance; Indemnity.

8.1 **Payment of Premiums.** The cost of the premiums for the insurance policies required to be carried by Lessor, pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), shall be a Common Area Operating Expense. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Start Date or Expiration Date.

#### 8.2 Liability Insurance.

(a) **Carried by Lessee.** Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an annual aggregate of not less than \$2,000,000. Lessee shall add Lessor as an additional insured by means of an endorsement at least as broad as the Insurance Service Organization's "Additional Insured-Managers or Lessors of Premises" Endorsement. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. Lessee shall provide an endorsement on its liability policy(ies) which provides that its insurance shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) **Carried by Lessor.** Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

#### 8.3 Property Insurance - Building, Improvements and Rental Value.

(a) **Building and Improvements.** Lessor shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full insurable replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. ~~Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee not by Lessor.~~ If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of

JT  
INITIALS

WJN  
INITIALS

any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$1,000 per occurrence.

(b) **Rental Value.** Lessor shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("**Rental Value insurance**"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) **Adjacent Premises.** Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Project if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) **Lessee's Improvements.** Since Lessor is the Insuring Party, Lessor shall ~~not~~ be required to insure Lessee Owned Alterations and Utility Installations ~~unless the item in question has become the property of Lessor under the terms of this Lease.~~

#### 8.4 Lessee's Property; Business Interruption Insurance.

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures ~~and Lessee Owned Alterations and Utility Installations.~~ Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$10,000 per occurrence. The proceeds from any such insurance ~~shall~~ may be used by Lessee for the replacement of personal property, Trade Fixtures ~~and Lessee Owned Alterations and Utility Installations.~~ Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) **Business Interruption.** Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) **No Representation of Adequate Coverage.** Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

**8.5 Insurance Policies.** Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least A-, VI, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

**8.6 Waiver of Subrogation.** Notwithstanding anything to the contrary in this Lease ~~Without affecting any other rights or remedies,~~ Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

**8.7 Indemnity.** Except for Lessor's ~~gross~~ negligence or willful misconduct or breach of this Lease, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee to the extent due to Lessee's negligence, willful misconduct or breach of this Lease. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

**8.8 Exemption of Lessor and its Agents from Liability.** Notwithstanding the negligence or breach of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places, in each case that are beyond the control of Lessor (ii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iii) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessee's sole recourse in the event of such damages or injury be to file a claim on the insurance policy(ies) that Lessee is required to maintain pursuant to the provisions of paragraph 8.

**8.9 Failure to Provide Insurance.** Lessee acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, ~~for any month or portion thereof that Lessee does not maintain the required insurance and/or does not provide Lessor with the required binders or certificates evidencing the existence of the required insurance, the Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or \$100, whichever is greater. The parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional risk/costs that Lessor will incur by reason of Lessee's failure to maintain such insurance, prevent the exercise of any of the other rights and remedies granted hereunder, nor relieve Lessee of its obligation to maintain the insurance specified in this Lease.~~

## 9. Damage or Destruction.

### 9.1 Definitions.

(a) "**Premises Partial Damage**" shall mean damage or destruction to the improvements on the Premises, ~~other than Lessee Owned Alterations and Utility Installations,~~ which can reasonably be repaired in ~~3-9~~ 9 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total. ~~Notwithstanding the foregoing, Premises Partial Damage shall not include damage to windows, doors, and/or similar items which Lessee has the responsibility to repair or replace pursuant to the provisions of Paragraph 7.1.~~

JT  
INITIALS

WJN  
INITIALS

(b) **“Premises Total Destruction”** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 93 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal to 6 month’s Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) **“Insured Loss”** shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) **“Replacement Cost”** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) **“Hazardous Substance Condition”** shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance, in, on, or under the Premises which requires restoration.

**9.2 Partial Damage - Insured Loss.** If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor’s expense, repair such damage (but not Lessee’s Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor’s election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

**9.3 Partial Damage - Uninsured Loss.** If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee’s expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor’s expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee’s commitment to pay for the repair of such damage in excess of insurance proceeds without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

**9.4 Total Destruction.** Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor’s damages from Lessee, except as provided in Paragraph 8.6.

**9.5 Damage Near End of Term.** If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one six month’s Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee’s receipt of Lessor’s written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor’s commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee’s option shall be extinguished. Nothing in this Section 9 shall limit Lessor’s right to recover damages against Lessee.

#### **9.6 Abatement of Rent; Lessee’s Remedies.**

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee’s use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) **Remedies.** If Lessor is obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee’s election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. “Commence” shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

**9.7 Termination; Advance Payments.** Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee’s Security Deposit as has not been, or is not then required to be, used by Lessor.

#### **10. Real Property Taxes.**

**10.1 Definition.** As used herein, the term **“Real Property Taxes”** shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed

JT  
INITIALS

WJN  
INITIALS



upon or levied against any legal or equitable interest of Lessor in the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Project is located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Project, (ii) a change in the improvements thereon, and/or (iii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

**10.2 Payment of Taxes.** Except as otherwise provided in Paragraph 10.3, Lessor shall pay the Real Property Taxes applicable to the Project, and said payments shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

**10.3 Additional Improvements.** Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Project by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request or by reason of any alterations or improvements to the Premises made by Lessor subsequent to the execution of this Lease by the Parties.

**10.4 Joint Assessment.** If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

**10.5 Personal Property Taxes.** Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

**11. Utilities and Services.** Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. Notwithstanding the provisions of Paragraph 4.2, if at any time in Lessor's sole judgment, Lessor determines that Lessee is using a disproportionate amount of water, electricity or other commonly metered utilities, or that Lessee is generating such a large volume of trash as to require an increase in the size of the trash receptacle and/or an increase in the number of times per month that it is emptied, then Lessor may increase Lessee's Base Rent by an amount equal to such increased costs. There shall be no abatement of Rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

## **12. Assignment and Subletting.**

### **12.1 Lessor's Consent Required.**

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 50% ~~25%~~ or more of the voting control of Lessee shall constitute a change in control for this purpose.

~~(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.~~

~~(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1 (c) or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.~~

~~(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.~~

~~(f) Lessor may reasonably withhold consent to a proposed assignment or subletting if Lessee is in Default at the time consent is requested.~~

~~(g) Notwithstanding the foregoing, allowing a de minimis portion of the Premises, ie. 20 square feet or less, to be used by a third party vendor in connection with the installation of a vending machine or payphone shall not constitute a subletting.~~

### **12.2 Terms and Conditions Applicable to Assignment and Subletting.**

(a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or stoppage of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute consent to any subsequent assignment or subletting.

\_\_\_\_\_  
INITIALS

©1999 - AIR COMMERCIAL REAL ESTATE ASSOCIATION

\_\_\_\_\_  
INITIALS

FORM MTN-9-5/09E

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See also Paragraph 36)

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee other than a Permitted Transferee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

**12.3 Additional Terms and Conditions Applicable to Subletting.** The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to atton to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

### **13. Default; Breach; Remedies.**

**13.1 Default; Breach.** A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee. THE ACCEPTANCE BY LESSOR OF A PARTIAL PAYMENT OF RENT OR SECURITY DEPOSIT SHALL NOT CONSTITUTE A WAIVER OF ANY OF LESSOR'S RIGHTS, INCLUDING LESSOR'S RIGHT TO RECOVER POSSESSION OF THE PREMISES.

(c) The failure of Lessee to allow Lessor and/or its agents access to the Premises or the commission of waste, act or acts constituting public or private nuisance, and/or an illegal activity on the Premises by Lessee, where such actions continue for a period of 3-10 business days following written notice to Lessee.

(d) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate or financial statements, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 41, (viii) material data safety sheets (MSDS), or (ix) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described in subparagraphs 13.1(a), (b), (c) or (d), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. § 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(g) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was Intentionally materially false.

JT  
INITIALS

WJN  
INITIALS

(h) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

**13.2 Remedies.** If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor an amount equal to 115% of the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting to the extent allocable to the remaining Term, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, ~~and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease.~~ The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessors right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall not ~~also~~ constitute the notice required by Paragraph 13.1. ~~In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.~~

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

~~13.3 Intentionally deleted. **Inducement Recapture.** Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**", shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.~~

**13.4 Late Charges.** Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall immediately pay to Lessor a one-time late charge equal to 5% ~~10%~~ of each such overdue amount or \$100, whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. ~~In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.~~

**13.5 Interest.** Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest ("**Interest**") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

#### **13.6 Breach by Lessor.**

(a) **Notice of Breach.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) **Performance by Lessee on Behalf of Lessor.** In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent or the Security Deposit, reserving Lessee's right to reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor.

INITIALS

©1999 - AIR COMMERCIAL REAL ESTATE ASSOCIATION

INITIALS

FORM MTN-9-5/09E

**14. Condemnation.** If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "**Condemnation**"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Unit, or more than 25% of the parking spaces is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemnor for Lessee's relocation expenses, loss of business goodwill, the unamortized value of any improvements to the Premises made by Lessee and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. ~~All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor.~~ In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

#### **15. Brokerage Fees.**

~~15.1 **Additional Commission.** In addition to the payments owed pursuant to Paragraph 1.10 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee or anyone affiliated with Lessee acquires from Lessor any rights to the Premises or other premises owned by Lessor and located within the Project, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the schedule of the Brokers in effect at the time of the execution of this Lease.~~

~~15.2 **Assumption of Obligations.** Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 1.10, 15, 22 and 31. If Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker for the limited purpose of collecting any brokerage fee owed.~~

**15.3 Representations and Indemnities of Broker Relationships.** Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

#### **16. Estoppel Certificates.**

(a) Each Party (as "**Responding Party**") shall within 10 days after written notice from the other Party (the "**Requesting Party**") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "**Estoppel Certificate**" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall within 10 days after written notice from Lessor deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

**17. Definition of Lessor.** The term "**Lessor**" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

**18. Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

**19. Days.** Unless otherwise specifically indicated to the contrary, the word "**days**" as used in this Lease shall mean and refer to calendar days.

**20. Limitation on Liability.** The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, or its partners, members, directors, officers or shareholders, and Lessee shall look to Lessor's interest in the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against Lessor's partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

**21. Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

**22. No Prior or Other Agreements; Broker Disclaimer.** This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor ~~and Lessee each~~ represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

#### **23. Notices.**

**23.1 Notice Requirements.** All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by

hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, ~~or by facsimile transmission,~~ and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a

    **JT**    

**PAGE 13 OF 17**

    **WJN**    

**INITIALS**

**INITIALS**



different address for notice, ~~except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice~~ A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

**23.2 Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 3 business days ~~72 hours~~ after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. ~~Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient); provided a copy is also delivered via delivery or mail.~~ If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

#### **24. Waivers.**

(a) No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent.

(b) The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

(c) THE PARTIES AGREE THAT THE TERMS OF THIS LEASE SHALL GOVERN WITH REGARD TO ALL MATTERS RELATED THERETO AND HEREBY WAIVE THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE TO THE EXTENT THAT SUCH STATUTE IS INCONSISTENT WITH THIS LEASE.

#### **25. Disclosures Regarding The Nature of a Real Estate Agency Relationship.**

(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:

(i) *Lessor's Agent.* A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessor only. A Lessor's agent or subagent has the following affirmative obligations: To the Lessor: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessor. To the Lessee and the Lessor: (a) Diligent exercise of reasonable skills and care in performance of the agent's duties. (b) A duty of honest and fair dealing and good faith. (c) A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(ii) *Lessee's Agent.* An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor: (a) Diligent exercise of reasonable skills and care in performance of the agent's duties. (b) A duty of honest and fair dealing and good faith. (c) A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(iii) *Agent Representing Both Lessor and Lessee.* A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: (a) A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lessor or the Lessee. (b) Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (iii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessee is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

(b) Brokers have no responsibility with respect to any Default or Breach hereof by either Party. ~~The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to this Lease may be brought against Broker more than one year after the Start Date and that the liability (including court costs and attorneys' fees), of any Broker with respect to any such lawsuit and/or legal proceeding shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.~~

(e) Lessor and Lessee agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.

**26. No Right To Holdover.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

**27. Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

**28. Covenants and Conditions; Construction of Agreement.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

**29. Binding Effect; Choice of Law.** This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

**30. Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "**Security Device**"), now or hereafter placed upon the Premises, to any and all

    **JT**      
INITIALS

    **WJN**      
INITIALS

advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

**30.2 Attornment.** In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or termination of a Security Device to which this Lease is subordinated (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (ii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of Lessor's obligations, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor which was not paid or credited to such new owner.

**30.3 Non-Disturbance.** With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "**Non-Disturbance Agreement**") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall, ~~if requested by Lessee,~~ use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

**30.4 Self-Executing.** The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

**31. Attorneys' Fees.** If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "**Prevailing Party**" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, subject to the foregoing, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach (\$200 is a reasonable minimum per occurrence for such services and consultation).

**32. Lessor's Access; Showing Premises; Repairs.** Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable prior notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect on Lessee's use of the Premises. All such activities shall be without abatement of rent or liability to Lessee.

**33. Auctions.** Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

**34. Signs.** Lessor may place on the Premises ordinary "For Sale" signs at any time ~~and ordinary "For Lease" signs during the last 6 months of the term hereof.~~ Except for ordinary "For Sublease" signs which may be placed only on the Premises, Lessee shall not place any sign upon the Project without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

**35. Termination; Merger.** Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

**36. Consents.** Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, ~~including but not limited to consents to an assignment or, a subletting or the presence or use of a Hazardous Substance,~~ shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

### **37. Guarantor.**

**37.1 Execution.** The Guarantors, if any, shall each execute a guaranty in the form most recently published by the AIR Commercial Real Estate Association.

**37.2 Default.** It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

**38. Quiet Possession.** Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

**39. Options.** If Lessee is granted an option, as defined below, then the following provisions shall apply.

    **JT**  
INITIALS

**PAGE 15 OF 17**

    **WJN**  
INITIALS

©1999 - AIR COMMERCIAL REAL ESTATE ASSOCIATION

FORM MTN-9-5/09E

39.1 **Definition.** "Option" shall mean: (a) the right to extend or reduce the term of or renew this Lease or to extend or reduce the term of or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase, the right of first offer to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 **Options Personal To Original Lessee.** Any Option granted to Lessee in this Lease is personal to the original Lessee or a permitted Transferee, and cannot be assigned or exercised by anyone other than said original Lessee ~~and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.~~

39.3 **Multiple Options.** In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

#### 39.4 **Effect of Default on Options.**

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, or (ii) ~~during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee),~~ (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, that are not cured within the applicable cure periods after notice ~~whether or not the Defaults are cured,~~ during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

~~(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term or completion of the purchase, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) if Lessee commits a Breach of this Lease.~~

40. **Security Measures.** Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

41. **Reservations.** Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, (ii) to cause the recordation of parcel maps and restrictions, and (iii) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate such rights.

42. **Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" within 6 months shall be deemed to have waived its right to protest such payment.

#### 43. **Authority; Multiple Parties; Execution.**

(a) If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within 30 days after request, deliver to the other Party satisfactory evidence of such authority.

(b) If this Lease is executed by more than one person or entity as "Lessee", each such person or entity shall be jointly and severally liable hereunder. It is agreed that any one of the named Lessees shall be empowered to execute any amendment to this Lease, or other document ancillary thereto and bind all of the named Lessees, and Lessor may rely on the same as if all of the named Lessees had executed such document.

(c) This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

44. **Conflict.** Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

45. **Offer.** Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

47. **Waiver of Jury Trial. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.**

48. **Arbitration of Disputes.** An Addendum requiring the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease  is  is not attached to this Lease.

49. **Americans with Disabilities Act.** ~~Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises, Except as set forth in this Lease, Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's particular use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.~~

**LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.**

**ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:**

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES ARE LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES ARE LOCATED.

            
JT

PAGE 16 OF 17

            
WJN

            
INITIALS

            
INITIALS

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: San Carlos, California  
On: April 18, 2011  
By **LESSOR:**  
Alemany Plaza, LLC, a California limited  
Company

By: /s/ Jack Tseng  
Name Printed: Jack Tseng  
Title: Partner

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_

Telephone: ( ) \_\_\_\_\_  
Facsimile: ( ) \_\_\_\_\_  
Federal ID No. \_\_\_\_\_

**BROKER:**

Cornish & Carey Commercial Newmark Knight  
Frank

/s/ John M. Weatherby  
Attn: John M. Weatherby  
Title: Senior Vice President  
Address: 901 Mariners Island Blvd., Suite 125  
San Mateo, California 94404  
Telephone: (650) 341-5800  
Facsimile: (650) 341-7024  
Email: johnw@ccareynkf.com  
Federal ID No. \_\_\_\_\_  
Broker/Agent DRE License #: 00832933/00640295

Executed at: South San Francisco  
On: April 18, 2011  
By **LESSEE:**  
Sutro Biopharma, Inc., a Delaware  
Corporation

By: /s/ William J. Newell  
Name Printed: William J. Newell  
Title: CEO

By: \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_

Telephone: ( ) Attn: \_\_\_\_\_  
Facsimile: ( ) \_\_\_\_\_  
Federal ID No. \_\_\_\_\_

**BROKER:**

Kidder Mathews

/s/ Gregg Domanico  
Attn: Gregg Domanico  
Title: Executive Vice President  
Address: 203 Redwood Shores Parkway, Suite 530  
Redwood City, California 94065  
Telephone: (650) 769-3508  
Facsimile: (650) 769-3551  
Email: greggd@kiddermathews.com  
Federal ID No. \_\_\_\_\_  
Broker/Agent DRE License #: 00996779

**NOTICE:** These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

©Copyright 1999 By AIR Commercial Real Estate Association.  
All rights reserved. No part of these works may be reproduced in any form without permission in writing.

JT

WJN

INITIALS

INITIALS



Disclosure Requirement – 894 Industrial Road, San Carlos, California

<b>Date:</b>	APRIL 22, 2011	<b>Subject Property:</b>	894 INDUSTRIAL ROAD SAN CARLOS, CALIFORNIA
<b>Lessor:</b>	ALEMANY PLAZA, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY	<b>Brokers:</b>	JOHN M. WEATHERBY SENIOR VICE PRESIDENT CORNISH & CAREY COMMERCIAL NEWMARK KNIGHT FRANK
<b>Lessee:</b>	SUTRO BIOPHARMA, INC., A CALIFORNIA CORPORATION		GREGG DOMANICO EXECUTIVE VICE PRESIDENT KIDDER MATHEWS

Various laws, regulations and policies require us to disclose the following information:

**1. Alquist-Priolo Notification; Alquist-Priolo Special Earthquake Studies Zone Act:**

The Property described above is or may be situated in a “Special Study Zone” as designated under the Alquist-Priolo Special Studies Zone Act, Sections 2621-2630, inclusive, of the California Public Resources Code; and, as such, the construction or development on the Property of any structure for human occupancy may be subject to the findings of a geologic report prepared by a geologist registered in the State of California, unless such report is waived by the city or county under the terms of that act. No representations on the subject are made by Lessor or by Cornish & Carey Commercial Newmark Knight Frank, or its agents or employees, and the Lessee should make his/her/its own inquiry or investigation.

**2. Notification re: National Flood Insurance Program:**

The Property is or may be located in a Special Flood Hazard Area on United States Department of Housing and Urban Development (H.U.D.) “Special Flood Zone Area Maps”. Federal law requires that as a condition of obtaining federally related financing on most properties located in “flood zones”, banks, savings and loan associations, and some insurance lenders require flood insurance be carried where the property, real or personal, is security for a loan. This requirement is mandated by the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973. Cities or counties may have adopted building or zoning restrictions, or other measures which could affect the value of the property. Lessee should contact the city or county in which the property is located to determine any such restrictions. The extent of coverage available in this area and the cost of this coverage may vary, and for further information, Lessee should consult a lender or insurance carrier.

**3. Hazardous Wastes of Substances and Underground Storage Tanks:**

Comprehensive federal and state laws and regulations have been enacted in the past several years in an effort to control the use, storage, handling, clean-up, removal and disposal of hazardous wastes or substances. Some of these laws and regulations (such as, for example, the Comprehensive Environmental Response Compensation and Liability Act [CERCLA]) provide for broad liability on the part of owners, tenants or other users of the property for clean-up costs and damages regardless of fault. Other laws and regulations set standards for the handling of asbestos, and establish requirements for the use, modification, abandonment, and closure of underground storage tanks.

It is not practical or possible to list all such laws and regulations in this Notice. Therefore, Lessors and Lessees are urged to consult legal counsel to determine their respective rights and liabilities with respect to the issues described in this Notice, as well as all other aspects of the proposed transaction. If hazardous wastes or substances have been, or are going to be used, stored, handled or disposed of on the Property, or if the Property has or may have underground storage tanks, it is essential that legal and technical advice be obtained to

Page 1 of 3

Although all Information furnished regarding property for sale, rental, or financing is from sources deemed reliable, such information has not been verified, and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice and to any special conditions imposed by our principal.

Lic #00832933





**Disclosure Requirement – 894 Industrial Road, San Carlos, California**

determine, among other things, the nature of permits and approvals which have been obtained or may be required; the estimated costs and expenses associated with the use, storage, handling, clean-up, disposal or removal of hazardous wastes or substances; and the nature and extent of contractual provisions necessary or desirable in this transaction. Broker recommends expert assistance and site investigation to determine past uses of the property, which may provide valuable information as to the likelihood of hazardous wastes or substances, or underground storage tanks, being on the Property.

Lessor agrees to disclose to Broker and to Lessee any and all information which he/she/it has regarding present and future zoning and environmental matters affecting the Property and regarding the condition of the Property, including, but not limited to structural, mechanical and soils conditions, the presence and location of asbestos, PCB transformers, other toxic, hazardous or contaminated substances, and underground storage tanks, in, on, or about the Property.

Broker has conducted no investigation regarding the subject matter hereof, except as may be contained in separate written document signed by Broker. Broker makes no representations concerning the existence or nonexistence of hazardous wastes or substances, or underground storage tanks, in, on, or about the Property. Lessee should contact a professional, such as a civil engineer, industrial hygienist or other persons with experience in these matters, to advise on these matters.

The term “hazardous wastes or substances” is used herein in its very broadest sense and includes, but is not limited to, petroleum based products, paints and solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonium compounds, asbestos, PCBs and other chemical products. Hazardous wastes or substances and underground storage tanks may be present on all types of real property. This Notice is intended to apply to any transaction involving any type of real property, whether improved or unimproved.

**4. The Americans With Disabilities Act:**

Please be advised that an owner or tenant of real property may be subject to the Americans With Disabilities Act (the ADA). The Act requires owners and tenants of “public accommodations” to remove barriers to access by disabled persons and provide auxiliary aids and services for hearing, vision or speech impaired persons. You are advised to consult your attorney with respect to the application of this Act to the Property. Cornish & Carey Commercial Newmark Knight Frank cannot give you legal advice on this Act or its requirements.

**5. Broker Disclosure:**

The parties hereby expressly acknowledges that Broker has made no independent determination or investigation regarding, but not limited to, the following: present or future use of the Property; environmental matters affecting the Property; the condition of the Property, including, but not limited to structural, mechanical and soils conditions, as well as issues surrounding hazardous wastes or substances as set out above; violations of the Occupational Safety and Health Act or any other federal, state, county or municipal laws, ordinances, or statutes; measurements of land and/or buildings. Lessee agrees to make its own investigation and determination regarding such items.

Page 2 of 3

Although all Information furnished regarding property for sale, rental, or financing is from sources deemed reliable, such information has not been verified, and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice and to any special conditions imposed by our principal.



Disclosure Requirement – 894 Industrial Road, San Carlos, California

Receipt of a copy of this Notice and Agreement is hereby acknowledged.

Acknowledged and Agreed:

**Lessor:** ALEMANY PLAZA, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY

By: /s/ Jack Tseng Date: 5/18/11  
*Jack Tseng, Partner*

**Lessee:** SUTRO BIOPHARMA, INC., A CALIFORNIA CORPORATION

By: /s/ [illegible] Date: 5/18/11

**Broker:** CORNISH & CAREY COMMERCIAL NEWMARK KNIGHT FRANK  
901 Mariners Island Blvd., Suite 125, San Mateo, CA 94404

By: /s/ John M. Weatherby Date: 5/18/11  
*John M. Weatherby, Senior Vice President, Lic #00640295*

**Broker:** KIDDER MATHEWS  
203 Redwood Shores Parkway, Suite 530, Redwood City, California 94065

By: /s/ Gregg Domanico Date: 5/18/11  
*Gregg Domanico, Executive Vice President, Lic #00996779*

CONSULT YOUR ADVISORS: NO REPRESENTATION OR RECOMMENDATION IS MADE BY CORNISH & CAREY COMMERCIAL NEWMARK KNIGHT FRANK OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL EFFECT, INTERPRETATION, OR ECONOMIC CONSEQUENCES OF THE NATIONAL FLOOD INSURANCE PROGRAM AND RELATED LEGISLATION, NOR OF OTHER LEGISLATION REFERRED TO HEREIN. THESE ARE QUESTIONS THAT YOU SHOULD ADDRESS WITH YOUR CONSULTANTS AND ADVISORS.

Although all Information furnished regarding property for sale, rental, or financing is from sources deemed reliable, such information has not been verified, and no express representation is made nor is any to be implied as to the accuracy thereof, and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice and to any special conditions imposed by our principal.



**Lease Addendum – 894 Industrial Road, San Carlos, California**

ADDENDUM TO THE LEASE DATED MAY \_\_, 2011, BY AND BETWEEN ALEMANY PLAZA, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY (LESSOR) AND SUTRO BIOPHARMA, INC., A DELAWARE CORPORATION (LESSEE), FOR THOSE PREMISES LOCATED AT 894 INDUSTRIAL ROAD, SAN CARLOS, CALIFORNIA.

**50. Rent:**

<u>Months</u>	<u>Amount per Square Foot</u>
01 – 12	\$0.85 NNN
13 – 24	\$1.15 NNN
25 – 36	\$1.45 NNN
37 – 48	\$1.67 NNN
49 – 60	\$1.75 NNN

**51. Condition of Premises:**

GMP systems and HVAC units for clean rooms and labs shall be in an ‘as-is’ condition, and notwithstanding any contrary provisions in the Lease, Lessee, at Lessee’s sole cost, shall maintain, repair and if necessary replace them.

**52. Tenant Improvements:**

Lessor, at Lessor’s sole cost and expense, before August 1, 2011, shall improve the premises as follows:

- Provide a new quality roof. Lessee shall reimburse the landlord a prorate share of the cost of the roof (not to exceed \$80,000) based upon an 8% interest rate amortized over twenty (20) years. For example, if the roof cost is \$80,000.00, \$80,000.00 amortized at 8% interest per year over 20 years is \$669.15 per month, divided by 13,500 square feet = \$0.0496 per square foot per month multiplied by 9,740 square feet of leased Premises, equals additional rent of \$482.78 per month.

Lessee shall have the right to improve the premises as follows:

- By August 1, 2011 Paint and re-carpet the office area. Lessor shall reimburse the Lessee for up to \$7,000.00 of this cost within thirty (30) days of Lessee’s presentation of invoices therefor, accompanied by conditional lien releases therefor.

**53. Intentionally deleted.**

**54. Right of First Refusal:**

Lessee shall have the right of first refusal to Lease the adjacent space at the conclusion of the lease term and option periods for the existing lease with A-3 Tile on the same terms of a bona fide offer in writing (“Offer”) from a third party to lease all or any portion of such space. If, at any time during the Term, as extended, Lessor shall solicit or receive an Offer that Lessor wishes to accept, Lessor, promptly following Lessor’s receipt of the Offer, shall deliver written notice to Lessee specifying the terms and conditions contained in the Offer. Lessee shall have two (2) working days to notify Lessor of its intention to lease the space. If Lessee elects not to lease such space, Lessor may offer such space to third parties upon the same terms and conditions as contained in Lessor’s prior written notification to Lessee. Prior to offering or agreeing to lease such space to third parties upon different terms and conditions than offered to Lessee, Lessor will first offer the space to Lessee upon such newly proposed terms and conditions. Lessee shall have the right, by delivery of written notice to Lessor any time such space becomes available except when an Offer is pending or a lease is being pursued by Lessor pursuant to an Offer that Lessee rejected to add such space to this Lease upon all the same terms and conditions are set forth in this Lease.

**55. Option to Extend:**

Lessee shall have one (1) three (3) year option to extend said lease. Lessee shall provide no more than nine (9) months and no less than four (4) months’ prior written notice of its intention to extend the lease. The rent for the option period shall be 100% of fair market value (the “Market Rate”). The parties shall negotiate in good faith to determine the Market Rate within thirty (30) days of Lessee’s exercise of the option. If the parties are unable to agree upon the Market Rate by the end of such period, Lessee may withdraw its exercise of the option by delivering written notice to Lessor or Market Rate will be determined by appraisal. If it becomes necessary to determine the Market Rate by appraisal, real estate appraiser(s), all of whom shall be Members of the Appraisal Institute and who have at least five (5) years experience appraising research and development space located in the vicinity of the Premises shall be appointed and shall act in accordance with the following procedures:

- (i) If the parties are unable to agree on the Market Rate within the allowed time and Lessee does not withdraw its exercise of the option, either party may demand an appraisal by giving written notice to the other party, which demand to be effective must state the name, address and qualifications of an appraiser selected by the

Lease Addendum – 894 Industrial Road, San Carlos, California

party demanding an appraisal (the “Notifying Party”). Within ten (10) days following the Notifying Party’s appraisal demand, the other party (the “Non-Notifying Party”) shall either approve the appraiser selected by the Notifying Party or select a second properly qualified appraiser by giving written notice of the name, address and qualification of such appraiser to the Notifying Party. If the Non-Notifying Party fails to select an appraiser within the ten (10) day period, the appraiser selected by the Notifying Party shall be deemed selected by both parties and no other appraiser shall be selected. If two appraisers are selected, they shall select a third appropriately qualified appraiser. If the two appraisers fail to select a third qualified appraiser, the third appraiser shall be appointed by the then presiding judge of the county where the Premises are located upon application by either party.

(ii) If only one appraiser is selected, that appraiser shall notify the parties in simple letter form of its determination of the Market Rate within twenty (20) days following his selection, which appraisal shall be conclusively determinative and binding on the parties as the appraised Market Rate. If multiple appraisers are selected, the appraisers shall meet not later than twenty (20) days following the selection of the last appraiser. At such meeting the appraisers shall attempt to determine the Market Rate as of the commencement date of the extended term by the agreement of at least two (2) of the appraisers. If two (2) or more of the appraisers agree on the Market Rate at the initial meeting, such agreement shall be determinative and binding upon the parties hereto and the agreeing appraisers shall, in simple letter form executed by the agreeing appraisers, forthwith notify both Lessor and Lessee of the amount set by such agreement. If multiple appraisers are selected and two (2) appraisers are unable to agree on the Market Rate, all appraisers shall submit to Lessor and Lessee an independent appraisal of the Market Rate in simple letter form within thirty (30) days following appointment of the final appraiser. The parties shall then determine the Market Rate by averaging the appraisals; provided that any high or low appraisal, differing from the middle appraisal by more than ten percent (10%) of the middle appraisal, shall be disregarded in calculating the average.

(iii) If only one appraiser is selected, then each party shall pay one-half of the fees and expenses of that appraiser. If three appraisers are selected, each party shall bear the fees and expenses of the appraiser it selects and one-half of the fees and expenses of the third appraiser.

(iv) The appraisers’ determination of the Market Rent shall be based on rental of space of the same age, construction, size and location as the Premises with the improvements installed therein at Lessor’s expense and shall take into account Lessee’s obligations to pay additional rent under the Lease and that there will be no free rent, tenant improvement allowance or other concession during the extension terms under this Lease. In determining Market Rate, the appraisers shall not consider any alterations installed in the Premises at Lessee’s expense.

**56. Commission and Representation:**

Cornish & Carey Commercial Newmark Knight Frank represents the Lessor in this transaction and Kidder Mathews represents the Lessee. The real estate commission to be split 50%/50% shall be paid by the Lessor as agreed upon in the Exclusive Listing Agreement between Lessor and Cornish & Carey Commercial Newmark Knight Frank. The commission shall be payable upon lease execution.

**57. Other Terms and Conditions:**

- Lessee may install, per code, an emergency generator and outside AC unit —on-site.
- Removal of any attached specialized improvements (fixtures) existing in the Premises as the Early Possession Date shall be with the reasonable approval of Lessor.
- A-3 Tile is entitled to seven (7) parking spaces in the Project and Lessee is entitled totwenty-one (21) parking spaces in the Project. Lessee, subject to Applicable Requirements, may elect to use some of its parking spaces to locate a new emergency generator and/or outside AC unit serving the Premises. The existing outside AC unit may occupy one or more of Lessee’s parking spaces.
- Signage, by Lessee at its cost, shall be as permitted per City Code.

**58. Tax Increases:**

During the Term, Lessee shall not be obligated to pay an increase in Real Property Taxes due to an increased in assessed valuation of the Property because of a change in ownership of the Property. During any extension of the Term, Lessee shall be obligated to pay fifty percent (50%) of its proportionate share of any increase in Real Property Taxes due to an increase in assessed valuation of the Property because of a change in ownership of the Property occurring after the initial Term.

**59. Compliance With Americans With Disabilities Act:**

Lessee shall be responsible for the installation and cost of any and all improvements, alterations or other work required on or to the premises or to any other portion of the property and/or building of which the premises are a part, required or reasonably necessary because of:

1. the particular use to which the Premises or any portion thereof is put;
2. the particular use by a Sublessee by reason of assignment or sublease; or
3. any improvements, alterations or other work performed by Lessee. Compliance with the provisions of this Paragraph shall be a condition of Lessor granting its consent to any assignment or lease of all or a portion of this Lease and the Premises described in this Lease.

Except as expressly set forth above, responsibility and cost of ADA compliance shall be borne by Lessor.

Cornish & Carey Commercial Newmark Knight Frank makes no representation or warranty with respect to compliance or noncompliance of the facility or any contemplated use with ADA requirements. We recommend that you consult your attorney to determine if this act applies to you and if so the requirements that must be met. The applicability of the Act is a legal issue and we cannot give you legal advice on such matters.

**60. Toxic Contamination Disclosure:**

Lessor and Lessee acknowledge that they have been advised that numerous federal, state, and/or local laws, ordinances and regulations (hereinafter referred to as the “Laws”) affect the existence and removal, storage, disposal, leakage of and contamination by materials designated as hazardous or toxic (hereinafter referred to as the “Toxics”). Many materials, some utilized in everyday business activities and property maintenance, are designated as hazardous or toxic.

Some of the Laws require that Toxics be removed or cleaned up by landowners, future landowners or former landowners without regard to whether the party required to pay for “clean up” caused the contamination, owned the property at the time the contamination occurred or even knew about the contamination. Some items, such as asbestos or PCBs, which were legal when installed, now are classified as Toxics, and are subject to removal requirements. Civil lawsuits for damages resulting from Toxics may be filed by third parties in certain circumstances.

Cornish & Carey Commercial Newmark Knight Frank has recommended, and hereby recommends, that each of the parties have competent professional environmental specialists review the Property and make recommended test so that a reasonably informed assessment of these matters can be made by each of the parties. Lessor and Lessee acknowledge that neither Cornish & Carey Commercial Newmark Knight Frank nor its agents or salespersons, have been retained to investigate or arrange investigation by others, and have not made any recommendations or representations with regard to the presence or absence of Toxics on, in or beneath the Property. Lessor and Lessee agree that they will rely only on persons who are experts in this field and will obtain such expert advice so each of them will be as fully informed as possible with regards to Toxics in entering into this Agreement.

**61. Modifications to Other Lease Terms:**

2.10 Common Areas - Changes. Lessor shall not make any changes to any Common Area that would unreasonably interfere with Lessee’s use of the Premises.

4.2 Common Area Operating Expenses. “Common Area Operating Expenses” shall not include and Lessee shall in no event have any obligation to perform or to pay directly, or to reimburse Lessor for, all or any portion of the following repairs, maintenance, improvements, replacements, premiums, claims, losses, fees, charges, costs and expenses (collectively, “Costs”): (a) Costs occasioned by casualties or by the exercise of the power of eminent domain; (b) Costs to correct any construction defect in the Project or to correct any violation of any Applicable Requirements applicable to the Project on the Commencement Date; (c) insurance deductibles in excess of \$10,000 and co-insurance payments; (d) Costs incurred in connection with the presence of any Hazardous Substance, except to the extent caused by the release or emission of the Hazardous Substance in question by Lessee; (e) Costs to repair the structural portions of the Building; (f) Costs which are properly capitalized under generally accepted accounting principles, except to the extent amortized over the useful life of the capital item in question; (g) any management fee in excess of 4% of gross rents and (h) expense reserves.

6.2 Hazardous Substances. To the actual knowledge of Lessor without investigation, (a) no Hazardous Substance is present on the Project or the soil, surface water or groundwater thereof, (b) no underground storage tanks are present on the Project, and (c) no action, proceeding or claim is pending or threatened regarding the Project concerning any Hazardous Substance or pursuant to any environmental law.



Lease Addendum – 894 Industrial Road, San Carlos, California

6.3 Compliance with Applicable Requirements. Lessee shall not be required to cause the Premises to comply with any Applicable Requirements, requirements of any underwriter or rating bureau or recommendations of Lessor's engineers or consultants requiring the construction of Alterations unless such compliance is necessitated by Lessee's particular use of the Premises or work performed by Lessee to the Premises.

7.2 Lessor's Obligations. Lessor's obligations under Section 7.2 shall include maintenance, repair and replacement of building systems to the extent not exclusively serving the Premises.

7.3 Utility Installations; Surrender. All trade fixtures and personal property installed in the Premises at Lessee's expense ("Lessee's Property") shall remain Lessee's property. At any time Lessee may remove Lessee's Property from the Premises, provided Lessee repairs all damage caused by such removal. For the avoidance of doubt, Lessee's Property includes, but is not limited to the equipment and fixtures listed on Exhibit D. Lessor hereby approves of Lessee's performance of repairs and supplements to the specialized GMP systems serving the Premises (provided that those affecting the roof or the structural elements of the Premises shall require Lessor's prior written consent) and use of KDS Plumbing as a contractor. Lessee shall be entitled to surrender such repairs and supplements upon termination of the Lease.

9 Damage; Condemnation. If the Premises are damaged by any peril, Lessee shall have the option to terminate the Lease if the Premises cannot be, or are not in fact, fully restored by Lessor to their prior condition within one hundred eighty (180) days after the condemnation or damage.

10 "Real Property Taxes" shall not include, and Lessee shall not be required to pay, any tax or assessment expense or any increase therein in excess of the amount which would be payable if such tax or assessment expense were paid in installments over the longest permitted term.

11 Utilities and Services. Lessor represents that all utilities to the Premises are separately metered.

12.1 Assignment and Subletting. In the event Lessor fails to respond to a written request for a consent to and assignment or sublease within thirty (30) days, the proposed assignment or sublease shall be deemed approved. Lessee may, without Lessor's prior written consent and without payment of any amount to Lessor, but with prior written notice to Lessor sublet the Premises or assign the Lease to (a) an entity controlling, controlled by or under common control with Lessee, (b) a successor entity related to Lessee by merger or consolidation or (c) a purchaser of substantially all of Lessee's assets ("Permitted Transferees"). Neither the sale or transfer of Lessee's capital stock shall be deemed an assignment.

13.4 Late Charge. Before assessing a late charge the first time in any twelve (12) month period, Lessor shall provide Lessee with written notice of the delinquency and shall waive such late charge if Lessee pays such delinquency within five (5) days thereafter.

**62. Reasonable Expenditures:**

Any expenditure by a party permitted or required under the Lease, for which such party is entitled to demand and does demand reimbursement from the other party, shall be limited to the fair market value of the goods and services involved, shall be reasonably incurred, and shall be substantiated by documentary evidence available for inspection and review by the other party or its representative during normal business hours.

**63. Effect of Addendum:**

All terms with initial capital letters used herein as defined terms shall have the meanings ascribed to them in the Lease unless specifically defined herein. In the event of any inconsistency between this Addendum and the Lease, the terms of this Addendum shall prevail.

**Exhibit B and C:**

Intentionally deleted.



Lease Addendum – 894 Industrial Road, San Carlos, California

Agreed and Accepted:

**Lessor:** ALEMANY PLAZA, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY

By: /s/ Jack Tseng  
*Jack Tseng, Partner*

Date: 5/18/11

**Lessee:** SUTRO BIOPHARMA, INC., A CALIFORNIA CORPORATION

By: /s/ [illegible]

Date: 5/18/11



Lease Addendum – 894 Industrial Road, San Carlos, California

EXHIBIT A

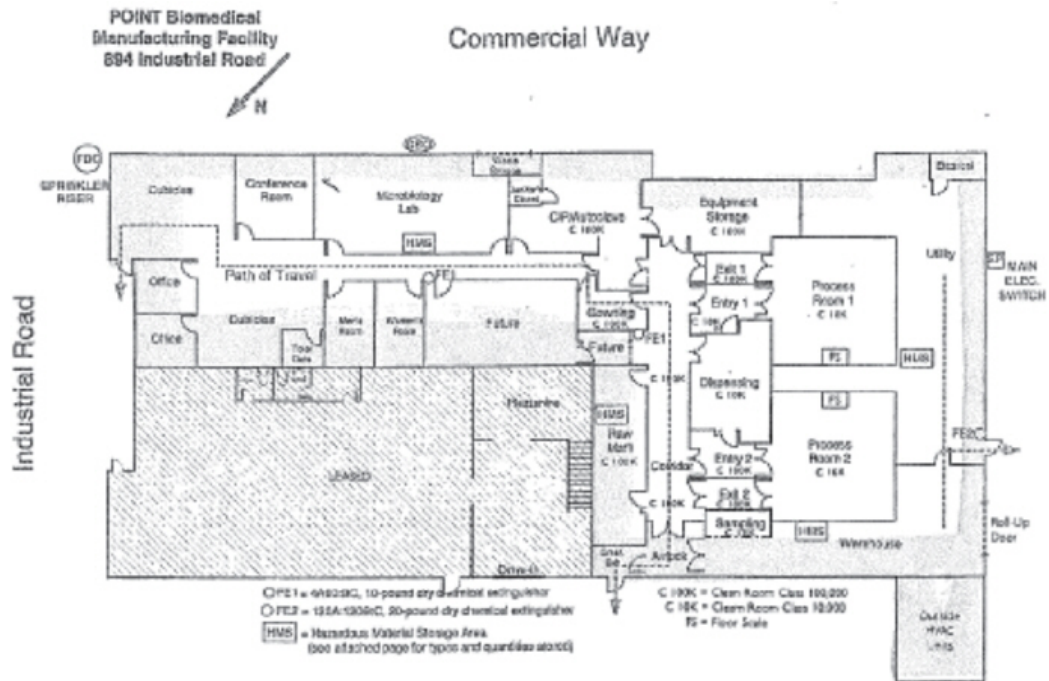
Page 6 of 9

901 Mariners Island Boulevard, Suite 125, San Mateo, CA 94404 M 650.341.5800 F 650.341.7024  
www.ccareynkf.com Lic #00832933



Exhibit A

894 Industrial Road, San Carlos



John Weatherby Senior Vice President 650.358.6269 johnw@ccareynkf.com Lic #00840295

Hans Slade Vice President 650.358.6269 hslade@ccareynkf.com Lic #01856129

901 Mariners Island Boulevard, Suite 125, San Mateo, CA 94404 T 650.341.5800

www.ccareynkf.com



Lease Addendum – 894 Industrial Road, San Carlos, California

EXHIBIT B

Intentionally Omitted

Page 7 of 9

901 Mariners Island Boulevard, Suite 125, San Mateo, CA 94404 M 650.341.5800 F 650.341.7024  
www.ccareynkf.com Lic #00832933



Lease Addendum – 894 Industrial Road, San Carlos, California

EXHIBIT C

Intentionally Omitted

Page 8 of 9

901 Mariners Island Boulevard, Suite 125, San Mateo, CA 94404 M 650.341.5800 F 650.341.7024  
www.ccareynkf.com Lic #00832933

---

EXHIBIT D

See Attached

iManage\3723387.5

Sutro Biopharma, Inc.  
GMP Facility - 894 Industrial Road

## EXTRACT

<u>Equipment</u>	<u>Vendor</u>	<u>Model</u>
<u>Process</u>		
Fermenter	Sartorius	D200
Heat Exchanger 1		
Holding tank (optional)	Sartorius	200L
Mixing drive		
Peristaltic pump	Watson Marlow	520UN/R2
Disk Stack Centrifuge	Westfalia	CSC6
Holding tank	Sartorius	200L
Holding tank	Sartorius	100L
Mixing drive	Sartorius	
Homogenizer	Avestin	C55
Diaphragm pump	DEPA	DL15-SFS-GGG
Heat Exchanger 2		
Heat Exchanger 3		
Peristaltic pump	Watson Marlow	620SN/R
Heat Exchanger 4		
Jacketed filter housings	Sanitech West	
Holding tank	Sartorius	50L
Peristaltic pump		
Heat Exchanger 5		
Sterile Tubing Welders/Fusers	Sartorius, GE, 8</or Terumo	
Scales (activated by pumps)		
<u>Cleaning</u>		
CIP Skid	SaniMatic	
Sanitary Hoses	Kuriyama	
<u>General</u>		
Floor scale for 200L tank	Mettler Toledo	
Floor scale for SOL tanks	Mettler Toledo	
Freezers for storage	Revco	
Smaller bioreactor	Sartorius	30L
Incubator/shaker	VWR	1570
BSC	Esco	Reliant Labculture
Centrifuge	Beckman	Allegra S-22
Rotors for centrifuge	Beckman	
Filter integrity tester	Pall	
Tube sealer	GE	
Media/buffer tanks	Sartorius	
Stainless steel worktables	Bandy (VWR)	30X60
Sanitary Diaphragm Valves		
Sanitary Fittings		
Totals		

Sutro Biopharma, Inc.  
GMP Facility - 894 Industrial Road

T7 RNAP

<u>Equipment</u>	<u>Vendor</u>	<u>Model</u>
<u>Process</u>		
Holding tank	Sartorius	50L non-jacketed
Column	GE	Axi Chrom 140
Totals		

Sutro Biopharma, Inc.  
GMP Facility - 894 Industrial Road

DsbC

<u>Equipment</u>	<u>Vendor</u>	<u>Model</u>
<u>Process</u> Column (Capto Butyl)	GE	AxiChrom 140
Totals		

Sutro Biopharma, Inc.  
GMP Facility - 894 Industrial Road

Plasmid

<u>Equipment</u>	<u>Vendor</u>	<u>Model</u>
NONE, if Althea is used		
Totals		



Sutro Biopharma, Inc.  
GMP Facility - 894 Industrial Road

## Cell Free

<u>Equipment</u>	<u>Vendor</u>	<u>Model</u>
<u>Process</u>		
Reaction Vessel	GE/Wave	
Chromatography Skid	GE	AKTA Process 6 mm
TFF Skid	Millipore	Smart Ready TFF
Holding tank for cell-free harvest	Sartorius	100L
Heater/chiller	VWR	
Column	GE	Axi Chrom 200
Column	GE	Axi Chrom 140
Column	GE	Axi Chrom 100
Floor scale for tank	Mettler Toledo	
Pump for filtration	Watson-Marlow	520UN/R2
Pump for filtration	Watson-Marlow	620SN/R
Stainless steel worktable for AKTA	Bandy (VWR)	30X48
Stainless steel worktable for TFF	Bandy (VWR)	30X60
BSC for bulk fill		
Totals		

Sutro Biopharma, Inc.  
GMP Facility - 894 Industrial Road

## QC Lab

<u>Equipment</u>	<u>Vendor</u>	<u>Model</u>
<u>QC Chemistry</u>		
HPLC	Agilent	HP1200
Spectrophotometer		
Plate Reader		
TOC analyzer (with gas generator) pH meter		
Conductivity meter		
Electrophoresis boxes, etc		
Electrophoresis power supply		
Gel Imager		
Heating block		
Stir plate		
Weighing balance		
Analytical balance		
Refrigerator/freezer		
Freezer (-80C)		
Pipettors	Rainin	various
<u>QC Microbiology</u>		
Microscope	VWR	97010-034
Incubator (2)	VWR	
Tabletop centrifuge	Beckman	Allegra X-22R
Rotors for centrifuge		
Microcentrifuge	Eppendorf	
Water bath	VWR	
BSC		
Refrigerator		
Ice maker		
Totals		

Sutro Biopharma, Inc.  
 GMP Facility - 894 Industrial Road

Spare Parts

Equipment	Vendor	Model
<u>Fermenter</u>		
DO probes pH probes		
Gear box		
Mechanical Seal		
Rupture disk		
Lower shaft		
RTD sensor		
Pressure transducer		
Foam probe		
Level probe		
Sight Glass		
Gaskets and diaphragms		
<u>Disk Stack</u>		
Spare parts kit		
Centripetal pump		
Lamp for turbidity meter		
Bowl		
<u>Homogenizer</u>		
Homogenizing valve		
Check valve		
Pressure transducer		
Ceramic valve seat & stem		
<u>Mixing tanks</u>		
Mixer motor		
<u>AKTA Process 6mm</u>		
Spare Parts kit		
<u>TFF System</u>		
Spare Parts kit		
Totals		

**First Amendment to Lease  
894 Industrial Road, San Carlos, California**

1. Recitals
  - A. Sutro BioPharma, Lessee, Leases 9,740 square feet at 894 Industrial Road, San Carlos, from Alemany Plaza, described in Lease dated, May 18, 2011. Lease terminates on July 31, 2016.
  - B. Alemany Plaza, LLC, Lessor, has agreed to terminate A-3 Tile Lease and lease the 3,760 square feet of office/storage space (hereinafter "Expansion Premises") to Sutro BioPharma. The term for Expansion Premises shall be co-terminus with Sutro BioPharma's existing Lease on July 31, 2016.
2. The term for the Expansion Premises shall be forty-six (46) months and will commence on October 1, 2012 and terminate on July 31, 2016.
3. Sutro BioPharma will increase their Security Deposit by \$7,520.00 for a total Security Deposit of \$27,139.00
4. Base Rent for the Expansion Premises shall be as follows:

Months	NNN Rate/SF/Month	NNN Rate/Month
October 1, 2012 – August 31, 2013	\$ 1.20	\$ 4,493.52
September 1, 2013 – August 31, 2014	\$ 1.24	\$ 4,644.58
September 1, 2014 – January 31, 2015	\$ 1.28	\$ 4,812.80
February 1, 2015 – July 31, 2015	\$ 1.52	\$ 5,715.20
August 1, 2015 – July 31, 2016	\$ 1.57	\$ 5,903.20

5. This First Amendment to Lease is conditioned upon the Lessor terminating the A-3 Tile Lease and A-3 Tile having a fully executed new Lease at 887 L Industrial Road, San Carlos, with Tanklage Properties, no later than September 1, 2012.
6. Alemany Plaza shall pay Cornish & Carey Commercial Newmark Knight Frank and Kidder Matthews a Lease commission on the additional eighteen (18) months of the new Lease term by Sutro BioPharma for the period from February 1, 2015 through July 31, 2016, per [one half] the commission schedule of Cornish & Carey Commercial Newmark Knight Frank.

Agreed and Accepted:

SUTRO BIOPHARMA, INC., A CALIFORNIA CORPORATION

By: /s/ William J. Newell  
*William J. Newell, CEO*

Date: 8/29/12

ALEMANY PLAZA, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY

By: /s/ Jack Tseng  
*Jack Tseng, Managing Member*

Date: 8/28/2012



Second Amendment to Lease  
888-894 Industrial Road, San Carlos, California

**Lessee:** Sutro Biopharma, Inc., a Delaware Corporation      **Subject Property:** 888-894 Industrial Road  
San Carlos, CA 94070

**Lessor:** Lydia Tseng and/or Alemany Plaza, LLC      **Date:** December 15, , 2014  
a California Limited Liability Company

This Second Amendment to Lease is dated this 15<sup>h</sup> day of December, 2014, between Sutro Biopharma, Inc., a Delaware Corporation (“Lessee”) and Lydia Tseng and/or Alemany Plaza LLC, a California Limited Liability Company (“Lessor”), and relates to the real property commonly known as 888-894 Industrial Road, San Carlos, California (“Property”).

1. Recitals: Sutro Biopharma, Inc., Lessee, Leases 13,500 square feet at 888-894 Industrial Road, San Carlos from Alemany Plaza LLC, described in Lease dated May 18, 2011. The lease terminates on July 31, 2016. The parties have agreed to extend the lease termination date until July 31, 2021.
  - A. Lease rate shall remain “as is” through its existing lease termination date of July 31, 2016, but will be extended for five years, effective August 1, 2016 through July 31, 2021, starting at \$2.00/SF/NNN. At the end of the extended term, Lessee shall have two (2) three (3) year options to extend said lease upon the terms set forth in Paragraph 55 of the Lease Addendum to the Lease dated May 18, 2011. Minimum rate at First Option period shall be \$3.00/SF/NNN
  - B. The Lease rate shall increase by two percent (2%) annually for years 2-5 of the extension period. See attached Exhibit E. The Security Deposit shall increase to an amount equal to the last month’s rent of the extension term or \$29,160.00.
  - C. Lessee shall have the Right of First Offering if Lessor ever decides to sell the property in the future. Lessor would consider selling the property at the present time for a mutually agreed upon price, subject to Lessor/Seller finding a suitable replacement property and completing a Tax Deferred Exchange under Section 1031 of the I.R.C.
  - D. Lessor shall pay Brokers, Kidder Mathews, representing Lessee, and Newmark Cornish & Carey, representing Lessor, a lease commission of five percent (5%) of the new rent and a sales commission of five percent (5%), of any sale price. Any unamortized lease commission of the current lease or extension lease period shall be deducted from any new sale commission.
  - E. Lessee shall provide Lessor with a list and cost of improvements constructed to date and/or planned in the future for the building. Lessee shall provide Lessor with detailed plans and



Second Amendment to Lease  
888-894 Industrial Road, San Carlos, California

specifications for the improvements Lessee intends to construct and install for Lessors' approval prior to execution of this Second Amendment, which shall be attached to this Second Amendment as an addendum. Lessee intends to make all planned improvements in accordance with applicable laws, ordinances, rules and regulations.

**Lessor:** LYDIA TSENG AND/OR ALEMANY PLAZA, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY

By: /s/ Lydia Tseng Date: December 15, 2014  
*Lydia Tseng*

**Lessee:** SUTRO BIOPHARMA, INC., A DELAWARE CORPORATION

By: /s/ William J. Newell Date: 12/17/2014  
*William J. Newell*

Accepted On \_\_\_\_\_

NOTICE TO LESSOR AND LESSEE: CORNISH & CAREY COMMERCIAL NEWMARK KNIGHT FRANK IS NOT AUTHORIZED TO GIVE LEGAL OR TAX ADVICE. NOTHING CONTAINED IN THIS COUNTER OFFER OR ANY DISCUSSIONS BETWEEN CORNISH & CAREY COMMERCIAL NEWMARK KNIGHT FRANK AND LESSOR AND/OR LESSEE SHALL BE DEEMED TO BE A REPRESENTATION OR RECOMMENDATION BY CORNISH & CAREY COMMERCIAL NEWMARK KNIGHT FRANK OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL EFFECT OR TAX CONSEQUENCES OF THIS DOCUMENT OR ANY TRANSACTION RELATING HERETO. ALL PARTIES ARE ENCOURAGED TO CONSULT WITH THEIR INDEPENDENT FINANCIAL CONSULTANTS AND/OR ATTORNEYS REGARDING THE TRANSACTION CONTEMPLATED BY THIS COUNTER OFFER.

[\*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 406 of the Securities Act of 1933, as amended.

**LICENSE AGREEMENT**

DATED AS OF SEPTEMBER 16, 2014

BY AND BETWEEN

SUTRO BIOPHARMA INC.

AND

MERCK KGAA

---

## LICENSE AGREEMENT

This License Agreement (this “Agreement”) is dated as of September 16, 2014 (the “Effective Date”) by and between Sutro Biopharma Inc., a corporation organized under the laws of California having a place of business at 310 Utah Avenue, Suite 150, South San Francisco, CA 94080, USA (“Sutro”), and Merck KGaA a corporation with general partners organized under German law having a place of business at Frankfurter Straße 250, 64293 Darmstadt, Germany (“Merck”). Sutro and Merck may be referred to herein as a “Party” or, collectively, as “Parties”.

### RECITALS:

**WHEREAS**, Sutro is a biotech company engaged in the discovery and development of antibody-drug conjugates;

**WHEREAS**, Merck is engaged in the research, development, manufacturing and commercialization of pharmaceutical products and is interested in Developing, manufacturing and Commercializing Products, all as defined below; and

**WHEREAS**, the Parties have established a Collaboration Agreement as further defined below (the “Collaboration Agreement”) under which the Parties have started Projects (as defined below) to generate ADCs and agreed that they would establish a license agreement to allow further discovery, research, Development and Commercialization of ADCs by Merck and this Agreement is such license agreement; and

**WHEREAS**, Merck desires to license from Sutro and Sutro wishes to license to Merck, on an exclusive basis, the right to discover, research, Develop and manufacture Product and Commercialize Product in the Field in the Territory.

**NOW, THEREFORE**, in consideration of the various promises and undertakings set forth herein, the Parties agree as follows:

### ARTICLE 1 DEFINITIONS

Unless otherwise specifically provided herein, the following terms shall have the following meanings:

- 1.1 “**Accepted Target**” means such Additional Target that has become accepted by the Gatekeeper as foreseen in Section 2.6.
- 1.2 “**Additional Target**” means any Targets proposed by Merck under this Agreement that are not Named Targets.
- 1.3 “**Affiliate**” means a Person that controls, is controlled by or is under common control with a Party, but only for so long as such control exists. For the purposes of this Section 1.3, the word “control” (including, with correlative meaning, the terms “controlled by” or “under the common control with”) means the actual power, either directly or indirectly through one or more intermediaries, to direct the management and policies of such Person or entity, whether by the ownership of more than fifty percent (50%) of the voting stock of such entity, or by contract or otherwise.



- 1.4 “**Antibody or Antibodies**” means an unconjugated polyclonal or monoclonal antibody or antibodies (whether (a) fully human, fully mouse, humanized, phage display, chimeric, polyclonal, polyclonal mixes or any other type of antibody or antibodies, (b) multiple or single chain, recombinant, *in vivo*, *in vitro* or naturally occurring or a combination of any of the foregoing in any species or (c) monospecific, bi-specific, or multi-specific or any analog, derivative, fragment or modification thereof (including a full antibody, scFv, scFvFc, Fab, minibody, etc.)).
- 1.5 “**Antibody-Drug-Conjugate**” or “**ADC**” means an Antibody directed against a Named Target or an Accepted Target (that has not been replaced under Section 2.4) to which Antibody a Payload has been attached via a Linker and incorporating Sutro Platform Technology and / or Sutro Technology.
- 1.6 “**Business Day**” means a day other than Saturday or Sunday on which banking institutions in San Francisco, California and Darmstadt, Germany are open for business.
- 1.7 “**Calendar Quarter**” means each three (3) month period commencing January 1, April 1, July 1 or October 1 of any year; provided, however, that (a) the first Calendar Quarter of the Term shall extend from the Effective Date to the end of the first full Calendar Quarter thereafter, and (b) the last Calendar Quarter of the Term shall end upon the expiration or termination of this Agreement.
- 1.8 “**Calendar Year**” means the period beginning on the 1<sup>st</sup> of January and ending on the 31<sup>st</sup> of December of the same year; provided, however, that (a) the first Calendar Year of the Term shall commence on the Effective Date and end on December 31<sup>st</sup> of the same year and (b) the last Calendar Year of the Term shall commence on January 1<sup>st</sup> of the Calendar Year in which this Agreement terminates or expires and end on the date of termination or expiration of this Agreement.
- 1.9 “**Cell Free Extract or CFE**” means the extract from *E. coli* produced by Sutro that is used for the cell free protein synthesis of the Product, in order to manufacture the Product including the incorporation of non-natural amino acids into the Product. For the manufacturing of Product the Cell Free Extract shall comply with all applicable regulations and quality standards in the Territory for its respective uses.
- 1.10 “**CFE Manufacturing Know-How**” means all Know-How Controlled by Sutro as of the Effective Date or any time thereafter necessary for the manufacture of the CFE. For the avoidance of doubt, CFE Manufacturing Know-How includes the Stanford CFE Manufacturing Know-How.
- 1.11 “**CFE Manufacturing Patents**” means all Patent Rights that are Controlled by Sutro or any of its Affiliates, as of the Effective Date or at any time thereafter during the Term, and that claim CFE Manufacturing Know-How. The CFE Manufacturing Patents include all Patent Rights listed on schedule 1.11.
- 1.12 “**CFE Manufacturing Technology**” means the CFE Manufacturing Know-How and the CFE Manufacturing Patents.
- 1.13 “**Change of Control**” means, with respect to a Person: (a) a transaction or series of related transactions that results in the sale or other disposition of all or substantially all of such Person’s assets; or (b) a merger or consolidation in which such Person is not the surviving corporation or in which, if such Person is the surviving corporation, the shareholders of such Person immediately

prior to the consummation of such merger or consolidation do not, immediately after consummation of such merger or consolidation, possess, directly or indirectly through one or more intermediaries, a majority of the voting power of all of the surviving entity's outstanding stock and other securities and the power to elect a majority of the members of such Person's board of directors; or (c) a transaction or series of related transactions (which may include a tender offer for such Person's stock or the issuance, sale or exchange of stock of such Person) if the shareholders of such Person immediately prior to the initiation of such transaction do not, immediately after consummation of such transaction or any of such related transactions, own, directly or indirectly through one or more intermediaries, stock or other securities of the entity that possess a majority of the voting power of all of such Person's outstanding stock and other securities and the power to elect a majority of the members of such Person's board of directors.

- 1.14 **"Clinical Trial"** means a clinical trial in human subjects that has been approved by a Regulatory Authority and Institutional Review Board or Ethics Committee, and is designed to measure the safety and/or efficacy of Product. Clinical Trials shall include Phase I Clinical Trials, Phase II Clinical Trials and Phase III Clinical Trials.
- 1.15 **"Collaboration Agreement"** means the agreement named "Collaboration Agreement" between the Parties and dated May 28, 2014.
- 1.16 **"Combination Product"** means a Product that: (a) includes one or more active ingredients in addition to the ADC; or (b) is combined with one or more products, devices, pieces of equipment or components.
- 1.17 **"Commercialization"** or **"Commercialize"** means any and all activities undertaken before and after Regulatory Approval of a MAA for the Product and that relate to the marketing, promoting, distributing, importing or exporting for sale, offering for sale, and selling of the Product, and interacting with Regulatory Authorities regarding the foregoing.
- 1.18 **"Commercially Reasonable Efforts"** means: (a) with respect to the efforts to be expended by a Party with respect to any objective, such reasonable, diligent, and good faith efforts as such Party would normally use to accomplish a similar objective under similar circumstances; and (b) with respect to any objective relating to Development or Commercialization of the Product by a Party, the application by such Party, consistent with the exercise of its prudent scientific and business judgment, of diligent efforts and resources to fulfill the obligation in issue, consistent with the level of efforts such Party would devote to a product at a similar stage in its product life as the Product and having profit potential and strategic value comparable to that of the Product, taking into account, without limitation, commercial, legal and regulatory factors, target product profiles, product labeling, past performance, the regulatory environment and competitive market conditions in the therapeutic area, safety and efficacy of the Product, the strength of its proprietary position and such other factors as such Party may reasonably consider, all based on conditions then prevailing. For clarity, Commercially Reasonable Efforts will not mean that a Party guarantees that it will actually accomplish the applicable task or objective.
- 1.19 **"Competing Product"** means, in a country of the Territory, a product that comprises an ADC which was not developed pursuant to this Agreement and is not being sold by Merck, its Affiliate or Sublicensees.
- 1.20 **"Confidential Information"** of a Party, means information relating to the business, operations or products of a Party or any of its Affiliates, including any Know-How, that such Party discloses to the other Party under this Agreement, or otherwise becomes known to the other Party by virtue of this Agreement.

- 1.21 “**Controlled**” means, with respect to (a) Patent Rights, (b) Know-How or (c) biological, chemical or physical material, that a Party or one of its Affiliates owns or has a license or sublicense to such Patent Rights, Know-How or material (or in the case of material, has the right to physical possession of such material) and has the ability to grant a license or sublicense to, or assign its right, title and interest in and to, such Patent Rights, Know-How or material as provided for in this Agreement without violating the terms of any agreement or other arrangement with any Third Party. In the case of a Change of Control of Sutro or a Sutro Business Acquisition, then with respect to any rights granted by Sutro under this Agreement, “Controlled” shall not include, and the applicable license grant shall not include within its scope, the Patent Rights, Know-How or material of the surviving entity or acquirer or Affiliate of the surviving entity or acquirer that was not Sutro (prior to the Change of Control or Sutro Business Acquisition).
- 1.22 “**Cost of Goods**” means (a) with respect to Product or CFE manufactured by a CMO, Sutro’s actual costs to acquire the Product or CFE from the CMO together with [\*] allocation for actual overhead and administrative costs for managing the CMO relationship, and (b) with respect to Product or CFE manufactured by Sutro, [\*]% of Sutro’s fully burdened manufacturing cost of the Product or the CFE, as the case may be, as calculated in accordance with generally accepted accounting principles of the United States (“GAAP”) to the extent applicable and the generally applied principles, policies and procedures concerning manufacturing products. Fully burdened manufacturing cost shall consist of the following:
- (i) Material Cost, which means the standard prices paid for raw material components and purchased finished goods [\*] which are purchased from outside vendors as well as any freight, duties, taxes and other fees, where applicable. Material Cost includes the quantity of the components included in the bill of material times the purchase price and the waste factor (i.e., scrap percentage) included in the bill of materials. It also includes the normal quality assurance sample quantity included in the bill of materials;
  - (ii) Direct Labor Costs, which means the standard labor hours required for an operation according to standard operating procedures (including internal manufacturing of components and products) multiplied by the direct labor rate for individuals within the relevant manufacturing operating unit, which labor rate, if for an employee, includes the cost of such employee’s salary, benefits and employer tax burden provided that such salaries and benefits are consistent with the salaries and benefits provided to employees in similar positions within Sutro not involved in manufacturing the Product or CFE, as the case may be; and
  - (iii) Overhead Costs, which means other costs associated with the operating unit(s) manufacturing the Product or CFE, as the case may be, provided, however, that such Overhead Costs shall exclude [\*]. Overhead Costs shall include appropriate direct and identifiable costs (or appropriate allocation thereof), including expenses associated with quality control, quality assurance, manufacturing, engineering services associated with the operating unit(s) manufacturing a product. Overhead Costs shall also include the fully loaded allocation of the facility costs (such as, without limitation, rent, taxes, heat, electricity and maintenance) used to manufacture the Product or CFE, as the case may be, and the allocated costs of manufacturing administration. These costs shall be allocated to each product line in such operating unit(s) or plant(s), whichever is applicable, based on specific criteria consistent with the standard operating procedures for each product, determined and allocated in a manner consistently applied within and across its operating units.

[\*]

Sutro will make the cost breakdown available to Merck upon request at any time. Merck will have the right to audit Sutro's records pertaining to the Product or CFE, as the case may be, in accordance with Section 7.11 (c) and Schedule 5.6.

- 1.23 “**Cover**”, “**Covering**” or “**Covered**” means, with respect to Product, and as applicable, that the making, practicing a method of manufacture, using, practicing a method that uses, selling, offering for sale or importation of Product would, but for a license granted in this Agreement under the Sutro Patents and Sutro Platform Patents, infringe a Valid Claim of the Sutro Patents or the Sutro Platform Patents in the country in which the activity occurs.
- 1.24 “**Development**” or “**Develop**” means, with respect to the Product, the performance of all pre-clinical and clinical development (including toxicology, pharmacology, test method development and stability testing, process development, formulation development, quality control development, statistical analysis), Clinical Trials (excluding Clinical Trials conducted after Regulatory Approval of an MAA), manufacturing and regulatory activities that are required to obtain Regulatory Approval of Product in the Territory.
- 1.25 “**DMF**” means a Drug Master File filed with the FDA, EMA or another foreign equivalent for the Sutro Platform Technology, Sutro Technology, and / or the CFE Manufacturing Technology.
- 1.26 “**EMA**” means the European Medicines Agency or a successor agency thereto.
- 1.27 “**European Commission**” means the authority within the European Union that has the legal authority to grant Regulatory Approvals in the European Union based on input received from the EMA or other competent Regulatory Authorities.
- 1.28 “**European Union**” or “**EU**” means the European Union, as may be redefined from time to time.
- 1.29 “**Executive Officers**” means, together, a member of the senior management of the pharmaceutical division of Merck and the Chief Executive Officer of Sutro.
- 1.30 “**Exploit**” means make, have made, use, including to research, Develop, Commercialize, register, manufacture, have manufactured, import, hold or keep (whether for disposal or otherwise), have used, transport, or have sold or otherwise dispose of. “**Exploitation**” means the act of Exploiting a compound, product or process.
- 1.31 “**FDA**” means the United States Food and Drug Administration or a successor federal agency thereto.
- 1.32 “**FD&C Act**” means the United States Federal Food, Drug & Cosmetic Act, as amended, together with any rules, regulations and requirements promulgated thereunder (including all additions, supplements, extensions and modifications thereto).
- 1.33 “**Field**” means all prophylactic, palliative, therapeutic or diagnostic uses in humans or animals.
- 1.34 “**Final Report**” means a report documenting the Results of Sutro Development Activities as defined in the respective Project Plan.

- 1.35 “**Final Results**” means Sutro’s delivery to Merck of at least 2 ADC molecules per Named Target or Accepted Target meeting the PS including the appropriate documentation of Results in a Final Report.
- 1.36 “**First Commercial Sale**” means, on a country-by-country basis, the first commercial transfer or disposition for value of a Product in such country to a Third Party by Merck, or any of its Affiliates or Sublicensees following, if required by Law, Regulatory Approval of such Product.
- 1.37 “**FTE**” means a full time equivalent person year of scientific or technical work on or directly related to the Sutro Development Activities, based on an average of [\*] weeks per month and [\*] hours per week.
- 1.38 “**FTE Expenses**” means the cost of the work performed by Sutro personnel, applying the FTE Rate.
- 1.39 “**FTE Rate**” means the fully-loaded annual cost for the work of one FTE of [\*] USD (\$[\*]).
- 1.40 “**GAAP**” means United States generally accepted accounting principles.
- 1.41 “**Gatekeeper**” means [\*], or such other Third Party as may be agreed by the Parties in writing from time to time.
- 1.42 “**GLP**” or “**Good Laboratory Practices**” means the then-current standards for good laboratory practices for pharmaceuticals, as set forth in the FD&C Act and applicable regulations and guidance promulgated thereunder, including the Code of Federal Regulations, as amended from time to time, or under any other Laws.
- 1.43 “**GLP Toxicology Studies**” means, with respect to a Product, animal studies conducted in accordance with GLP and intended to support an IND for such Product.
- 1.44 “**Governmental Body**” means any: (a) nation, principality, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, subdivision, department, agency, bureau, branch, office, commission, council, board, instrumentality, officer, official, representative, organization, unit, body or entity and any court or other tribunal); (d) multi-national or supranational organization or body; or (e) individual, entity, or body exercising, or entitled to exercise, any executive, legislative, judicial, administrative, regulatory, police, military or taxing authority or power of any nature.
- 1.45 “**IFRS**” means the International Financial Reporting Standards, the set of accounting standards and interpretations and the framework in force on the Effective Date and adopted by the European Union as issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), as such accounting standards may be amended from time to time.
- 1.46 “**Indication**” means a generally acknowledged disease or condition, a significant manifestation of a disease or condition, or symptoms associated with a disease or condition or a risk for a disease or condition for which a MAA may be obtained.
- 1.47 “**IND**” means an investigational new drug application submitted to applicable Regulatory Authorities for approval to commence Clinical Trials in a given jurisdiction.

- 1.48 “**Joint Know-How**” means Know-How that is invented, conceived, or developed jointly by or on behalf of both Parties in the course of conducting their activities under this Agreement. If any Know-How would otherwise constitute both Product Know-How and Joint Know-How, then such Know-How will be deemed to be Product Know-How. If any Know-How would otherwise constitute both Sutro Platform Know-How and Joint Know-How, then such Know-How will be deemed to be Sutro Platform Know-How.
- 1.49 “**Joint Patents**” means a Patent Right that claims Joint Know-How.
- 1.50 “**Joint Technology**” means the Joint Know-How and the Joint Patents.
- 1.51 “**Know-How**” means any: (a) scientific or technical information, results and data of any type whatsoever, in any tangible or intangible form whatsoever, that is not in the public domain or otherwise publicly known, including discoveries, inventions, trade secrets, devices, databases, practices, protocols, regulatory filings, methods, processes (including manufacturing processes, specification and techniques), techniques, concepts, ideas, specifications, formulations, formulae, data (including pharmacological, biological, chemical, toxicological, clinical and analytical information, quality control, trial and stability data), case reports forms, medical records, data analyses, reports, studies and procedures, designs for experiments and tests and results of experimentation and testing (including results of research or development), summaries and information contained in submissions to and information from ethical committees, or Regulatory Authorities, and manufacturing process and development information, results and data, whether or not patentable, all to the extent not claimed or disclosed in a patent or patent application; and (b) Antibodies, compositions of matter, cells, cell lines, assays, animal models and physical, biological or chemical material, including drug substance samples, intermediates of drug substance samples, drug product samples and intermediates of drug product samples. The fact that an item is known to the public shall not be taken to exclude the possibility that a compilation including the item, and/or a development relating to the item, is (and remains) not known to the public. “Know-How” includes any rights including copyright, database or design rights protecting such Know-How. “Know-How” excludes Patent Rights.
- 1.52 “**Knowledge**” means, with respect to a matter that is the subject of a given representation, or warranty of Sutro, the knowledge, information or belief of any officer or director of Sutro, or such other employee of Sutro who would reasonably be expected to have knowledge of the matter in question, has, or should reasonably be expected to have. “**Knowingly**” means with Knowledge.
- 1.53 “**Law**” or “**Laws**” means all applicable laws, statutes, rules, regulations, ordinances and other pronouncements having the binding effect of law of any Governmental Body.
- 1.54 “**Linker**” means a chemical moiety by which a Payload is attached to an Antibody to create an ADC.
- 1.55 “**MAA**” means a Marketing Authorization Application submitted pursuant to the requirements of the FDA, as more fully defined in 21 U.S. C.F.R. § 314.3 et seq, a Biologics License Application submitted pursuant to the requirements of the FDA, as more fully defined in 21 U.S. C.F.R. § 601, and any equivalent application submitted in any country in the Territory, including all additions, deletions or supplements thereto, and as any and all such requirements may be amended, or supplanted, at any time.
- 1.56 “**Major Market Countries**” means U.S., France, Germany, Italy, Spain, the U.K., Japan, China, Canada, or Brazil.

- 1.57 “**Merck Antibody**” means an Antibody Controlled by Merck as of the Effective Date or anytime thereafter that is provided to Sutro under this Agreement for use under a Project Plan and derivatives thereof generated under this Agreement that continue to bind to the applicable Target.
- 1.58 “**Merck Know-How**” means all Know-How, but excluding Product Know-How, that is Controlled by Merck or any of its Affiliates, as of the Effective Date or at any time thereafter during the Term and is necessary or useful in the Exploitation of a Product or an ADC developed under this Agreement.
- 1.59 “**Merck Linker**” means a Linker Controlled by Merck during the Term.
- 1.60 “**Merck Materials**” means all chemical, biological or physical materials that are Controlled by Merck or any of its Affiliates, as of the Effective Date or at any time thereafter during the Term, and that are necessary or useful in the research, Development, manufacture, use or Commercialization of the Product, including sequence information related to Merck Antibodies and that are provided by Merck to Sutro under this Agreement.
- 1.61 “**Merck Patents**” means all Patent Rights that are Controlled by Merck or any of its Affiliates, as of the Effective Date or at any time thereafter during the Term, and that claim Merck Know-How.
- 1.62 “**Merck Payload**” means a Payload Controlled by Merck at any time during the Term.
- 1.63 “**Merck Technology**” means the Merck Patents and the Merck Know-How.
- 1.64 “**Named Targets**” means the [\*] Targets ([\*]) nominated by Merck and accepted by Sutro for development of ADCs under the Collaboration Agreement as set forth in Schedule 1.64.
- 1.65 “**Net Sales**” means the gross amounts invoiced by Merck or any of its Affiliates or Sublicensees for sales of Product to independent or unaffiliated Third Party purchasers of such Product, less the following deductions with respect to such sales that are either included in the billing as a line item as part of the gross amount invoiced, or otherwise documented as a deduction in accordance with IFRS to be specifically attributable to actual sales of such Product.
- (a) trade discounts, including trade, cash and quantity discounts or rebates, credits or refunds (including inventory management fees, discounts or credits);
  - (b) allowances or credits actually granted upon claims, returns or rejections of products, including recalls, regardless of the party requesting such recall;
  - (c) provisions for bad debt (provided that if such bad debt is subsequently collected it will be added to Net Sales);
  - (d) charges included in the gross sales price for freight, insurance, transportation, postage, handling and any other charges relating to the sale, transportation, delivery or return of such Product;
  - (e) customs duties, sales, excise and use taxes and any other governmental charges (including value added tax) actually paid in connection with the transportation, distribution, use or sale of such Product (but excluding what is commonly known as income taxes);

(f) rebates and chargebacks or retroactive price reductions made to federal, state or local governments (or their agencies), or any Third Party payor, administrator or contractor, including managed health organizations; and

(g) cash considerations given directly or indirectly to Third Parties related to import, distribution or promotion of the Licensed Product, unless such consideration is given in return for a separable service received, which service is alternatively available from a Third Party (specifically excluding any commissions paid to sales personnel, sales representatives and sales agents who are employees or consultants of the selling Party or its Affiliates or any Sublicensees).

If a Product under this Agreement is sold in the form of a Combination Product, then Net Sales for such Combination Product shall be determined on a country-by-country basis by mutual agreement of the Parties in good faith taking into account the perceived relative value contributions of the Product and the other ingredient or component in the Combination Product, as reflected in their respective market prices. In case of disagreement, an independent expert agreed upon by both Parties or, failing such agreement, designated by the International Chamber of Commerce, shall determine such relative value contributions and such determination shall be final and binding upon the Parties.

In the event Product is “bundled” for sale together with one or more other products in a country (a **Product Bundle**”), then Net Sales for such Product sold under such arrangement shall be determined on a country-by-country basis by mutual agreement of the Parties in good faith taking into account the relative value contributions of the Product and the other products in the Product Bundle, as reflected in their individual sales prices. In case of disagreement, an independent expert agreed upon by both Parties or, failing such agreement, the International Chamber of Commerce shall determine such relative value contributions and such determination shall be final and binding upon the Parties.

For clarification, sale of Product by Merck or any of its Affiliates or Sublicensees to another of these entities for resale by such entity to a Third Party shall not be deemed a sale for purposes of this definition of “Net Sales” but the subsequent resale by such entity to a Third Party shall be included in “Net Sales.” Further, transfers or dispositions of Product in the following situations at aggregate cost (including all costs related to the transfer or disposition of Product e.g. all administrative, promotional charges and royalty payments that would be owed to Sutro pursuant to this Agreement), or less than the aggregate cost, of the Product: (i) in connection with patient assistance programs; (ii) for charitable or promotional purposes; (iii) for preclinical, clinical, regulatory or governmental purposes or under so-called “named patient” or other limited access programs; or (iv) for use in any tests or studies reasonably necessary to comply with any Law, regulation or request by a Regulatory Authority shall not, in each case of (i) through (iv), be deemed sales of such Product for purposes of this definition of “Net Sales.”

1.66 “**Non-GLP Toxicology Studies**” means, with respect to a Product, pilot toxicology studies carried out in one or more animal species and intended to determine the therapeutic index or tolerability of such Product to support its selection for GLP Toxicology Studies.

1.67 “**Out-of-Pocket Expenses**” means expenses actually paid by a Party or its Affiliate to any Third Party; provided, that “Out-of-Pocket Expenses” shall not include expenses paid to any consultants (or service providers of like kind).



- 1.68 “**Patent Rights**” or “**Patents**” means: (a) an issued or granted patent, including any extension, supplemental protection certificate, registration, confirmation, reissue, reexamination or renewal thereof; (b) a pending patent application, including any continuation, divisional, continuation-in-part, substitute or provisional application thereof; and (c) all counterparts or foreign equivalents of any of the foregoing issued by or filed in any country or other jurisdiction.
- 1.69 “**Payload**” means an active pharmaceutical ingredient, which is attached or intended to be attached to an Antibody via a Linker to create an ADC.
- 1.70 “**Person**” means any natural person, corporation, firm, business trust, joint venture, association, organization, company, partnership or other business entity, or any government or agency or political subdivision thereof.
- 1.71 “**Phase I Clinical Trial**” means a Clinical Trial that provides for the first introduction into humans of a pharmaceutical product with the primary purpose of determining safety, metabolism and pharmacokinetic properties and clinical pharmacology of such product, in a manner that is generally consistent with 21 CFR § 312.21(a), as amended (or its successor regulation).
- 1.72 “**Phase II Clinical Trial**” means a Clinical Trial that is intended to initially evaluate the effectiveness of a pharmaceutical product for a particular indication or indications in patients with the disease or indication under study, in a manner that is generally consistent with 21 CFR § 312.21(b), as amended (or its successor regulation).
- 1.73 “**Phase III Clinical Trial**” means a pivotal Clinical Trial with a defined dose or a set of defined doses of a pharmaceutical product designed to ascertain efficacy and safety of such product, in a manner that is generally consistent with 21 CFR § 312.21(c), as amended (or its successor regulation), for the purpose of enabling the preparation and submission of an MAA.
- 1.74 “**Price Approvals**” means, in those countries in the Territory where Governmental Authorities may approve or determine pricing and/or pricing reimbursement for pharmaceutical products, such pricing and/or pricing reimbursement approval or determination.
- 1.75 “**Product**” means a pharmaceutical composition that consists of or incorporates an ADC based on a Merck Antibody.
- 1.76 “**Product Know-How**” means Know-How
- (a) that is Controlled by Merck or any Affiliate of Merck as of the Effective Date or at any time during the Term (including pursuant to Section 8.3 (b)), and including Know-How that is invented, conceived, or developed (A) by or on behalf of either or both Parties, or its or their Affiliates or Third Parties acting on its or their behalf, in each case in the course of conducting its or their activities under this Agreement, or (B) by or on behalf of any Sublicensee in the course of conducting activities under a permitted sublicense hereunder, and
- (b) to the extent relating to or consisting of
- (i) a Named Target or Accepted Target,
  - (ii) a Merck Antibody,
  - (iii) a Merck Payload,
  - (iv) a Merck Linker,

- (v) a combination of a Merck Payload with a Linker that is in the public domain,
- (vi) a combination of a Merck Linker with a Payload that is in the public domain,
- (vii) an ADC Developed under this Agreement, or
- (viii) a Product.

If any Know-How would otherwise constitute both Product Know-How and Joint Know-How, then such Know-How will be deemed to be Product Know-How.

- 1.77 **“Product Patent”** means a Patent Right that claims Product Know-How.
- 1.78 **“Product Technology”** means the Product Know-How and the Product Patents.
- 1.79 **“Project”** means for each Named Target or Accepted Target the research activities to be conducted under the Collaboration Agreement and the Agreement with the goal to generate ADCs against a Named Target and/or Accepted Target.
- 1.80 **“Project Budget”** means the budget set forth by the timelines, required resources and the FTE Rate in each Project Plan. The Project Budget should include on a Calendar Quarter-by-Calendar Quarter basis the estimated amount of FTE Expenses associated with the specified Sutro Development Activities that are reimbursable by Merck.
- 1.81 **“Project Plan”** means the written Project description and timeline for Sutro Development Activities for each Project as appended to the Collaboration Agreement and the Agreement as Exhibit A and agreed upon in writing by the Parties.
- 1.82 **“PS”** means performance specifications, which describe Merck’s minimal performance requirement of an ADC molecule generated by Sutro. The PS are specifically defined for each Named Target and each Accepted Target, but shall be oriented at the generally defined PS in Schedule 1.82 appended to this Agreement.
- 1.83 **“Regulatory Authority”** means: (a) in the US, the FDA; (b) in the EU, the EMA or the European Commission; or (c) in any other jurisdiction anywhere in the world, any regulatory body with similar regulatory authority over pharmaceutical or biotechnology products.
- 1.84 **“Regulatory Approval”** means any and all approvals, licenses, registrations, or authorizations of the relevant Regulatory Authority, including Price Approvals, necessary for the Development, manufacture, use, storage, import, transport or Commercialization of Product in a particular country or jurisdiction. For the avoidance of doubt, Regulatory Approval to Commercialize Product shall include Price Approval.
- 1.85 **“Results”** means all results of Sutro Development Activities that have been generated in the performance of any Project Plan either under the Collaboration Agreement or the Agreement.
- 1.86 **“Royalty Term”** means, on a Product-by-Product and country-by-country basis, the period from the First Commercial Sale of such Product in such country until the later of (a) the last date on which such Product is Covered by a Valid Claim within the Sutro Patents or the Sutro Platform Patents in such country, or (b) ten (10) years after such First Commercial Sale of such Product in such country.

- 1.87 “**Scripps In-License**” means that certain license agreement by and between Sutro and The Scripps Research Institute dated May 30, 2012.
- 1.88 “**Stanford CFE Manufacturing Know-How**” means those parts of the Stanford Know-How that are relevant for the manufacture of the CFE.
- 1.89 “**Stanford In-License**” means that certain license agreement by and between Sutro and The Board Of Trustees of the Leland Stanford Junior University, dated October 3, 2007, as may be amended from time to time.
- 1.90 “**Stanford Manufacturing Know-How**” means those parts of the Stanford Know-How that are relevant for manufacture of proteins and Antibodies using the CFE.
- 1.91 “**Stanford Know-How**” means the Know-How licensed to Sutro pursuant to the Stanford In-License.
- 1.92 “**Stanford Patents**” means the Patents licensed to Sutro pursuant to the Stanford In-License. The Stanford Patents are listed in schedule 1.92.
- 1.93 “**Stanford Technology**” means the Stanford Patents and the Stanford Know-How.
- 1.94 “**Strategic IP Plan**” means, for each Project, the plan mutually agreed between the Parties that sets out the agreed overall strategy that the Parties intend to follow for the protection by means of Patent Rights generated under this Agreement and such further Patent Rights as the Parties may agree on as part of such Strategic IP Plan. The Strategic IP Plan for each Project shall be established, agreed, updated, revised and executed as set out in Section 3.16(a).
- 1.95 “**Sublicensee**” means a Person other than an Affiliate of Merck to which Merck (or its Affiliate) has, pursuant to Section 4.4, granted sublicense rights under any of the license rights granted under Section 4.1; provided, that “Sublicensee” shall exclude distributors.
- 1.96 “**Sutro Bankruptcy Event**” means: (a) voluntary or involuntary proceedings by or against Sutro are instituted in bankruptcy under any insolvency Law, including, without limitation, the U.S. Bankruptcy Code, which proceedings, if involuntary, shall not have been dismissed within ninety (90) days after the date of filing; (b) a receiver or custodian is appointed for Sutro; (c) proceedings are instituted by or against Sutro for corporate reorganization, dissolution, liquidation or winding-up of Sutro, which proceedings, if involuntary, shall not have been dismissed within ninety (90) days after the date of filing; or (d) substantially all of the assets of Sutro are seized or attached and not released within ninety (90) days thereafter.
- 1.97 “**Sutro Development Activities**” means each of the following activities to be performed by Sutro pursuant to a Project Plan: (a) generating and optimizing drug conjugation sites in the amino acid sequence of Antibodies; (b) combining selected Payloads with an Antibody to form a library of ADCs against a specific target; and (c) characterizing the biophysical, biochemical, biological, and functional properties of the ADCs.
- 1.98 “**Sutro Know-How**” means all Know-How excluding Sutro Platform Know-How and excluding the CFE Manufacturing Know-How (a) that is Controlled by Sutro or any of its Affiliates, as of the Effective Date or at any time thereafter during the Term, and (b) is necessary or useful to Exploit Products.

- 1.99 “**Sutro Linker**” means a Linker Controlled by Sutro during the Term.
- 1.100 “**Sutro Materials**” means all chemical, biological or physical materials that are Controlled by Sutro or any of its Affiliates, as of the Effective Date or at any time thereafter during the Term, and that are necessary or useful in the research, Development, manufacture, use or Commercialization of the Product, but excluding the Delivered Materials.
- 1.101 “**Sutro nnAA**” means any non-naturally occurring amino acid Controlled by Sutro as of the Effective Date or any time thereafter.
- 1.102 “**Sutro Patents**” means all Patent Rights that are Controlled by Sutro or any of its Affiliates, as of the Effective Date or at any time thereafter during the Term and that claim Sutro Know-How. Listed on Schedule 1.102 are all Sutro Patents existing as of the Effective Date; provided, that Sutro shall update Schedule 1.102 from time-to-time to include any new Patent Rights that come to be Controlled by Sutro or any of its Affiliates at any time during the Term on or following the Effective Date that are directly related to and are necessary or useful to Exploit the Product.
- 1.103 “**Sutro Payload**” means a Payload Controlled by Sutro during the Term.
- 1.104 “**Sutro Platform Know-How**” means all Know-How excluding CFE Manufacturing Know-How
- (a) that is Controlled by Sutro or any Affiliate of Sutro as of the Effective Date or at any time during the Term (including pursuant to Section 8.3 (a)), and any Know-How that is invented, conceived, or developed (A) by or on behalf of either or both Parties, or its or their Affiliates or Third Parties acting on its or their behalf, in each case in the course of conducting its or their activities under this Agreement, or (B) by or on behalf of any Sublicensee in the course of conducting activities under a permitted sublicense hereunder, and
- (b) to the extent relating to or consisting of
- (i) a Sutro Payload,
  - (ii) a Sutro Linker,
  - (iii) Sutro’s proprietary Cell Free Extract expression technology to the extent related to the making, using, selling or offering for sale of a Product,
  - (iv) the combination of a Sutro Payload with a Linker that is in the public domain
  - (v) the combination of a Payload that is in the public domain with a Sutro Linker,
  - (vi) the conjugation of a Sutro Payload or a Payload that is in the public domain to an Antibody using a Sutro Linker (including the modification of an Antibody to facilitate such conjugation and the identity or identification of preferred sites on an Antibody for such conjugation and excluding the specific conjugation to a Merck Antibody and also excluding the identity or identification of preferred sites on a Merck Antibody for such conjugation).
  - (vii) a Sutro nnAA.

For the avoidance of doubt, Sutro Platform Know-How includes the Stanford Manufacturing Know-How. If any Know-How would otherwise constitute both Sutro Platform Know-How and

Joint Know-How, then such Know-How will be deemed to be Sutro Platform Know-How. It is agreed that all Know-How generated under subclauses (a)(A) and (a)(B) above (i.e. excluding any Know-How existing as of the Effective Date or Controlled by Sutro separately from activities under this Agreement) and related to a Named Target, Accepted Target, Merck Antibody, Merck Linker, ADC (except for the individual components thereof that fall within clause (b) above) or a Merck Payload shall not constitute Sutro Platform Know-How.

- 1.105 “**Sutro Platform Patents**” means a Patent Right that claims Sutro Platform Know-How, including the Stanford Patents. Sutro Platform Patent Rights include all Patent Rights listed on Schedule 1.105.
- 1.106 “**Sutro Platform Technology**” means the Sutro Platform Know-How and the Sutro Platform Patents.
- 1.107 “**Sutro Technology**” means the Sutro Patents, the Sutro Know-How and the Sutro Materials.
- 1.108 “**Sutro’s Inability To Perform**” means: (a) a material breach by Sutro of its obligation to supply the CFE to Merck under the CFE Supply Agreement or the CFE CMO Supply Agreement which is not cured within [\*] days; (b) [\*]; (c) a Sutro Bankruptcy Event; (d) Sutro fails to manufacture or have manufactured and deliver to Merck the CFE in quantities and quality sufficient to continuously meet Merck’s reasonable forecasted demands for CFE all as set forth in the CFE Supply Agreement and / or the CFE CMO Supply Agreement and is not cured within [\*] days, where such failure results from reasons within Sutro’s reasonable control and/or results from Sutro’s failure to use Commercially Reasonable Efforts; or (e) [\*].
- 1.109 “**Target**” means: [\*]
- 1.110 “**Tax**” or “**Taxes**” means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.
- 1.111 “**Territory**” means all the countries of the world.
- 1.112 “**Third Party**” means any Person other than Sutro, Merck or any of their respective Affiliates.
- 1.113 “**Third Party Action**” means any Action made by a Third Party against either Party that claims that the Product, or its use or Development, manufacture or sale infringes or misappropriates such Third Party’s intellectual property rights.
- 1.114 “**Third Party Technology**” means all Know-How and all Patents that are Controlled by a Third Party and are necessary or useful to Exploit the Product.
- 1.115 “**Third Party License Agreement**” means any agreement entered into by a Party or its Affiliate with a Third Party, or any amendment or supplement thereto, in each case following the Effective Date, whereby royalties, fees or other payments are to be made by a Party or its Affiliate to such Third Party in connection with the grant of rights under intellectual property rights Controlled by such Third Party, which rights are necessary or useful to Exploit the Product.

- 1.116 “**United States**” or “**US**” means the United States of America, its territories and possessions.
- 1.117 “**USD**” or “**\$**” means the lawful currency of the United States.
- 1.118 “**Valid Claim**” means a claim of an issued and unexpired patent which has not lapsed or been revoked, abandoned or held unenforceable or invalid by a final decision of a court or governmental or supra-governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not been disclaimed, denied or admitted to be invalid or unenforceable through reissue, reexamination or disclaimer or otherwise.
- 1.119 **Other Terms.** The definition of each of the following terms is set forth in the section of the Agreement indicated below:

<u>Defined Term</u>	<u>Section</u>
“ <b>Action</b> ”	8.8 (b)
“ <b>Agreement</b> ”	Preamble
“ <b>Antibody-Construct Sequences</b> ”	2.3
“ <b>Available</b> ”	2.6
“ <b>CFE-CMO</b> ”	5.6
“ <b>CFE Supply Agreement</b> ”	5.6
“ <b>CMO</b> ” or “ <b>Third Party Contract Manufacturer</b> ”	5.4
“ <b>Delivered Materials</b> ”	2.3
“ <b>Development Support</b> ”	5.2
“ <b>Effective Date</b> ”	Preamble
“ <b>JIPC</b> ” or “ <b>Joint IP Committee</b> ”	3.15
“ <b>JPT</b> ” or “ <b>Joint Project Team</b> ”	3.8
“ <b>Sutro</b> ”	Preamble
“ <b>Sutro Indemnitees</b> ”	11.1
“ <b>Manufacturing Support</b> ”	5.8
“ <b>Merck</b> ”	Preamble
“ <b>Merck Indemnitees</b> ”	11.2
“ <b>Merck Notification Date</b> ”	5.5
“ <b>Party</b> ” and “ <b>Parties</b> ”	Preamble
“ <b>Product Bundle</b> ”	1.65
“ <b>Product-CMO</b> ”	5.7
“ <b>Product Supply Agreement</b> ”	5.5
“ <b>Quarterly Report</b> ”	3.13
“ <b>Regulatory Support</b> ”	6.5
“ <b>Representatives</b> ”	5.2
“ <b>Sutro Business Acquisition</b> ”	2.10
“ <b>Term</b> ”	12.1

**ARTICLE 2**  
**PROJECTS AND GATEKEEPER PROCESS**

- 2.1 **Objective and Conduct of the Projects.** The Parties will conduct a number of Projects, each in accordance with a Project Plan, the terms of this Agreement and Law in good scientific manner. Each Party will use Commercially Reasonable Efforts to perform activities assigned to it under each Project Plan in accordance with the timelines set forth therein.
- 2.2 **Projects, Project Plans.** Each Project shall be conducted collaboratively as described in the mutually agreed written Project Plan. Such Project Plans, with up to three Merck Antibodies per Target, shall be appended to the Agreement. Sutro shall use all Merck Materials provided by Merck to Sutro solely to perform the Sutro Development Activities. Sutro shall use Commercially Reasonable Efforts to deliver the deliverables under each Project Plan in accordance with the PS and timelines set forth therein. The PS of each Project Plan shall be in line with the general PS in this Agreement set forth in Schedule 1.82.
- 2.3 **Project Plan Framework.** Each Project Plan will provide a framework for the applicable Project. Each Project Plan will include the following activities (all as will be more specifically set forth in the applicable Project Plan):
- (a) Merck will deliver to Sutro Antibody-construct sequences encoding for [\*] directed against the applicable Named Target or Accepted Target (the “**Antibody-Construct Sequences**”) and, as the case may be, one or more Merck Payloads and / or one or more Merck Linkers.
  - (b) Sutro will use Commercially Reasonable Efforts to create ADCs using such Merck Antibody-Construct Sequences and, as the case may be, using such Merck Payloads and / Merck Linkers in quantities and meeting the PS set forth in the respective Project Plan.
  - (c) Sutro will deliver to Merck any such Antibodies generated or modified under this Agreement and / or resulting ADCs (the “**Delivered Materials**”) and such Sutro Payloads and / or Sutro Linkers and other appropriate reagents and reference standards each, in such quantities and otherwise as contemplated under the Project Plan or otherwise agreed to by the Parties. The ownership of the tangible Delivered Materials shall be and remain with Merck; provided that ownership of underlying intellectual property rights shall be in accordance with ARTICLE 8.
  - (d) Non-GLP Toxicology Studies, GLP Toxicology Studies, and PK/PD studies with respect to such Delivered Materials will be conducted by Sutro or Merck, as specified in the applicable Project Plan.
  - (e) Each Project Plan will include a budget and timeline for Sutro’s activities thereunder, including with respect to Sutro FTEs to be funded by Merck.
- 2.4 **Project Failure.** In case of technical failure, i.e., Sutro is not able to generate at [\*] ADCs that meet the PS for a Named Target or Accepted Target under a Project Plan, or if the Project Leaders reasonably determine that it is scientifically or technically not feasible to create [\*] ADCs directed to the applicable Named Target or Accepted Target in accordance with the PS set forth in the applicable Project Plan, then Merck may at its own discretion replace the Named Target or Accepted Target, subject to the gate keeping process set forth in Section 2.6, within three months of the JPT’s notice of its failure to produce at least [\*] ADCs meeting the PS or such determination by the Project Leaders. For clarity, the exclusivity as described in Section 2.10 will be transferred from the replaced Named Target or replaced Accepted Target to the new Accepted Target, and the

replaced Named Target or replaced Accepted Target shall no longer be deemed to be a Named Target or Accepted Target under this Agreement, Merck will have no further right or license under this Agreement with respect to the replaced Named Target or Accepted Target and the replaced Named Target or Accepted Target shall no longer be subject to the exclusivity under Section 2.10. Notwithstanding the foregoing, Merck shall only have the right to replace a Named Target or Accepted Target in accordance with this Section 2.4 and the procedure set forth in Section 2.9 during the [\*] year period following the Effective Date.

- 2.5 **Availability of Targets.** Merck may designate up to six (6) Targets under this Agreement as follows: The [\*] Target are the Named Targets set forth in the Collaboration Agreement. Merck may designate a [\*] Additional Target as Accepted Targets in accordance with Sections 2.5 and 2.6 at any time prior to [\*]. Merck may designate a [\*] Additional Target as Accepted Targets in accordance with Sections 2.5 and 2.6 at any time [\*]. All such Additional Targets that become Accepted Targets will be set forth on Schedule 1.1.
- 2.6 **Gatekeeper Process.** Within 10 business days of the Effective Date, the Parties shall enter into an agreement with the Gatekeeper in order to establish the below process by which Merck may designate Additional Targets. In order to designate an Additional Target under Section 2.4 or Section 2.5 Merck will provide the Gatekeeper with a confidential written description of such Additional Target, including to the extent available, the Name and UniProt/SwissProt identifier for such proposed Additional Target. Within five (5) Business Days following Gatekeeper's receipt of such written notice with respect to a particular proposed Additional Target, Sutro will ensure that the Gatekeeper will notify Merck in writing whether the proposed Additional Target is Available for designation as an Accepted Target under a Project Plan. The Parties hereby acknowledge and agree that a proposed Additional Target will be "**Available**" for designation by Merck as an Accepted Target unless (a) Sutro or its Affiliate is actively conducting research and development directed to such Target with a Third Party prior to the date of receipt of the written notice from Merck to the Gatekeeper, or (b) Sutro or its Affiliate is actively engaged in its own internal program for ADC Development involving such Target (as further evidenced by written notice thereof to the Gatekeeper prior to the date of receipt of the written notice from Merck to the Gatekeeper). If for three (3) subsequent proposed Additional Targets the Gatekeeper notifies Merck that the proposed Additional Target is not Available, and the unavailability for each is by reason of clause (b) above, then Merck shall have the right to conduct an audit, upon reasonable notice during normal business hours and at Merck's own expense, of Sutro's internal programs directly related to such Additional Targets (and not any of its programs with, or on behalf of, a Third Party) solely to determine the accuracy of the Gatekeeper's notification of unavailability for such proposed Additional Targets. All information obtained by Merck in conducting such audit shall be Sutro's Confidential Information.
- 2.7 **Non-Availability of Target.** For clarity, in the event that the Gatekeeper notifies Merck that a proposed Additional Target is not Available pursuant to the procedures set forth in Section 2.6, Merck will not have exhausted any of its rights to designate an Additional Target as an Accepted Target within the applicable selection period. The applicable selection period for an Additional Target shall only be extended if the Gatekeeper responded in more than the five (5) Business Days as required under Section 2.6, and such extension shall be equal to the delay beyond such five (5) Business Days.
- 2.8 **Availability of Named Targets.** The Parties acknowledge and agree that, as of the Effective Date, the Named Targets are Available, and the procedures set forth in Section 2.6 will not apply to such Named Targets, other than with respect to replacement of such Named Targets in accordance with Section 2.4.



- 2.9 **Availability of Additional Target and Designation as an Accepted Target under a Project Plan.** In the event that the Gatekeeper notifies Merck that a proposed Additional Target is Available for designation as an Accepted Target under a Project Plan in accordance with Section 2.5, then within five (5) Business Days following Merck's receipt of such notification, Merck shall provide the identity of the proposed Additional Target to Sutro. The Parties shall discuss the inclusion of such proposed Additional Target and Sutro shall inform Merck within ten (10) Business Days after notification from Merck whether Sutro believes in good faith that such proposed Additional Target will not be suitable for the generation of ADCs. If Sutro informs Merck during such ten (10) Business Days that Sutro believes that such proposed Additional Target will not be suitable for the generation of ADCs, then Merck shall have the right to withdraw the proposed Additional Target and submit another proposed Additional Target in accordance with Section 2.6, or Merck may provide written notification to Sutro within five (5) Business Days that it still desires to designate the proposed Additional Target as an Accepted Target. If Sutro does not inform Merck that such proposed Additional Target will not be suitable for the generation of ADCs during such ten (10) Business Days, or if Merck notifies Sutro in writing during such five (5) Business Days that it still desires to designate the proposed Additional Target as an Accepted Target, then at the expiration of such ten (10) Business Days or receipt of such written notice, as applicable (a) such proposed Additional Target shall be designated as an Accepted Target, and (b) the JPT will promptly meet to draft a Project Plan for such Accepted Target and will use good faith efforts to agree on such Project Plan within four (4) months. Upon written agreement by the Project Leaders on a proposed Project Plan for such Accepted Target the corresponding Project will commence. In addition to Section 2.10, the Parties agree that during the time period commencing with the receipt of the notification of Availability of an Additional Target from the Gatekeeper until its designation as an Accepted Target, such Target shall not be available for a collaboration between Sutro and a Third Party.
- 2.10 **Exclusivity.** During the Term on a Named Target or Accepted Target—by Named Target or Accepted Target basis, Sutro will collaborate exclusively with Merck with respect to ADCs directed against such Named Target or Accepted Target during the period commencing with (i) the effective date of the Collaboration Agreement for Named Targets, (ii) the designation of an Additional Target as an Accepted Target under a Project Plan by Merck pursuant to Section 2.9 or (iii) the replacement of a Named or Accepted Target pursuant to Section 2.4 with a new Accepted Target and ending on the earliest of (a) such date as Merck notifies Sutro of termination of the corresponding Project and directs Sutro to stop work on the corresponding Project Plan; (b) the date on which such Named Target or Accepted Target is replaced with another Accepted Target under Section 2.4 or (c) the date Merck terminates or otherwise ceases (which date Merck shall promptly notify Sutro thereof) all activities by or on behalf of Merck with respect to a Product, in each case corresponding to such Named Target or Accepted Target (each such period, a "**Target Exclusivity Period**"). For purposes of this Section 2.10, "collaborate exclusively" means that Sutro will not either directly, or to its Knowledge indirectly, discover, research, Develop or Commercialize ADCs, including by granting any right or license, including granting any covenant not to sue, with respect to any of the Named Targets or Accepted Targets. In the case of a Change of Control of Sutro, or if Sutro or an Affiliate of Sutro acquires any Third Party, business or assets, or any interest therein (a "**Sutro Business Acquisition**"), then the aforementioned restrictions shall not apply to any research, development or commercialization program that a portion of the surviving entity or Affiliate that was not Sutro (prior to the Change of Control or Sutro Business Acquisition) had ongoing as of immediately prior to the date of such Change of Control or Sutro Business Acquisition. In the event that Sutro enters into such activities then it shall thereupon be considered to be in material breach of this Agreement and Merck shall have the right to terminate this Agreement in accordance with Section 12.3(a) or reduce payments in accordance with Section 12.4(a) (iv). Unless Merck decides to reduce payments according to Section 12.4 (a) (iv), the foregoing remedies shall not be exhaustive with respect to breach by Sutro of this Section 2.10.

2.11 [\*]. In the event that a Project involves the use of a [\*] Merck Antibody, and the Targets against which the Merck Antibody is directed are not Accepted Targets or Named Targets, that have not been replaced pursuant to Section 2.4, in separate, non-terminated Projects, then (a) Merck must designate [\*], as the case may be, Additional Targets under Section 2.5 [\*], (b) a single Project and associated Project Plan will govern the creation of an ADC incorporating such Merck Antibody Directed to all such Additional Targets and (c) Sutro will collaborate exclusively with Merck with respect to ADCs directed to each such Additional Target pursuant to Section 2.10.

In the event that a Project involves the use of a [\*] Merck Antibody, and one or more of the Targets against which the Merck Antibody is directed are non-replaced Accepted Targets or Named Targets in other non-terminated Projects, then Merck is only required to designate those Targets as Additional Targets, that are not the Accepted Targets or Named Targets of non-terminated other Projects under this Agreement. For example, if a first Merck Antibody in a non-terminated Project is directed against the Target set forth on Schedule 1.64 and a [\*] Merck Antibody in a non-terminated Project is directed against the Target set forth on Schedule 1.64 and one other Target that is not an Accepted Target or a Named Target, then Merck shall only be required to designate one other Additional Target pursuant to Section 2.5 against such other Target.

### ARTICLE 3 GOVERNANCE

3.1 **Alliance Managers.** Promptly following the Effective Date, each Party will designate an alliance manager to be reasonably available to the other Party to facilitate communication, respond to questions and otherwise oversee that the Parties' activities hereunder are in line with this Agreement. Such alliance managers will regularly interact with each other on a frequency to be mutually agreed by the Parties and on an *ad hoc* basis if requested by the Joint Project Team or the Project Leaders. A Party may replace its alliance manager at any time by written notice to the other Party.

3.2 **Appointment of Project Leaders.** Within ten (10) Business Days after the Effective Date, each Party will appoint an individual from senior management of such Party with decision making authority to be a project leader (each, a "Project Leader") to oversee the Parties' activities under this Agreement. A Party may change its Project Leader at any time by written notice to the other Party. Such Project Leader may, but is not required to, serve as a representative of its respective Party on the JPT. The Parties may allow additional employees to attend meetings of the Project Leaders and may consult with additional employees and advisors prior to making a decision, subject to the confidentiality provisions of Article 9. The office of the Project Leaders will exist until the completion of the Sutro Development Activities under the last Project Plan.

3.3 **Project Leaders Functions and Authority.** The Project Leaders will be responsible for supervising and managing the Projects. Their functions will be:

- (a) overseeing and coordinating the progress, timelines, Project Budget and Results;
- (b) reviewing and approving each Project Plan (including the Project Budget) and any proposed amendments to the Project Plans; provided that the Project Plan (including the Project Budget) for the Named Targets attached hereto as Exhibit A1 shall be deemed approved by the Project Leaders;

- (c) reviewing each Party's reports regarding its activities under each Project Plan;
- (d) deciding whether it is scientifically or technically feasible to create [\*] ADCs directed to the applicable Named Target or Accepted Target in accordance with each Project Plan;
- (e) deciding whether an ADC meets the applicable PS set forth in each Project Plan;
- (f) approving, in writing, updates and amendments to the Sutro Development Activities, including all relevant timelines and Project Budget;
- (g) approval of the Strategic IP Plan and approval of any changes to the Strategic IP Plan;
- (h) resolving any disputes delegated to the Project Leaders by the JPT or the JIPC; and
- (i) performing such other functions as the Parties may mutually agree in writing.

3.4 **Meetings of the Project Leaders.** During the period in which there are active Projects, the Project Leaders will meet in person or by teleconference or videoconference at least once every Calendar Quarter. The Project Leaders also may choose to meet more frequently on an as needed basis. In advance of each meeting of the Project Leaders, the JPT will provide a Quarterly Report to the Project Leaders.

3.5 **Decisions of the Project Leaders.** The Project Leaders will take action by unanimous consent or by a written resolution signed by the Project Leaders. In the event the Project Leaders are unable to reach unanimous consent on any matter provided in Section 3.3, then the Project Leaders shall first consult with relevant members of their delegation to the JPT and, after such consultation, reconvene to attempt to reach unanimous consent on the matter. If after such effort the Project Leaders are still unable to reach unanimous consent, then except for a dispute on a matter in subclause (d) or (e) or (g) in Section 3.3, Merck acting reasonably and in good faith shall make the final determination on the applicable matter. With respect to a dispute on a matter in subclause (d) or (e) in Section 3.3, the matter shall be escalated to the Executive Officers in accordance with Section 13.2; provided that if the Executive Officers are unable to reach unanimous consent on the matter within thirty (30) days, then Merck acting reasonably and in good faith shall make the final determination on the applicable matter. With respect to a dispute on a matter in subclause (g) in Section 3.3, the matter shall be escalated to the Executive Officers in accordance with Section 13.2; provided that if the Executive Officers are unable to reach unanimous consent on the matter within thirty (30) days, then the Parties shall submit the matter to an arbitrator as follows: (a) the arbitrator will be selected by the Parties and shall have expertise in patent protection and strategy, (b) within fifteen (15) days after appointment of the arbitrator each Party shall deliver to the arbitrator and the other Party its proposal regarding the dispute, (c) the arbitrator shall give each Party the opportunity to explain to the arbitrator why its proposal is more appropriate than the other Party's proposal, which may include conducting an oral argument or an evidentiary hearing if the arbitrator determines that it would assist the arbitrator's decision of which proposal to select, (d) the arbitrator shall, within fifteen (15) days after receipt of the two proposals and having heard each Party's rationale for its proposal, select one of the proposals from the two (2) submitted, and (e) the proposal selected by the arbitrator shall be binding on the Parties as if mutually agreed by the Parties and the arbitrator may not modify or alter the terms in either Party's proposal.

- 3.6 **Minutes and Reports of the Project Leaders.** The Project Leaders will document their decisions regarding each Project Plan in the meeting minutes. Promptly after each meeting, one Project Leader will provide the other with a draft version of the meeting minutes for review and comment. Within forty (40) Business Days of each meeting, the Project Leaders will provide the Parties and the JPT with a final agreed version of the meeting minutes.
- 3.7 **Limitations.** The Project Leaders shall have no power to amend this Agreement and shall have only such powers as are specifically delegated to it hereunder. The Project Leaders, and Merck in the exercise of its final decision-making authority under Section 3.5, will not have the power to: (a) determine that Sutro has breached any obligation under this Agreement; (b) determine that a milestone event required for the payment of a milestone payment has or has not occurred; (c) make a decision that is expressly stated to require the mutual agreement of the Parties; (d) amend the Sutro Development Activities to require Sutro to conduct any other or different activities; or (e) expand Merck's rights or reduce Merck's obligations under this Agreement.
- 3.8 **Formation and Composition of the Joint Project Team.** The joint project team established under the Collaboration Agreement (the "JPT" or "Joint Project Team") shall continue in its function under this Agreement. The Parties shall notify one another in writing of any change in the membership of the JPT. Each Party may exchange its representatives on the JPT upon written notice to the other Party. The JPT will exist until the completion of the Sutro Development Activities under the last Project Plan.
- 3.9 **JPT Functions and Powers.** The JPT shall manage the activities of the Parties under this Agreement during the time Sutro is performing the Sutro Development Activities. During that time the JPT shall:
- (a) draft the Project Plans (including the budgets therein) for each Project and proposing such Project Plans for approval by the Project Leaders;
  - (b) oversee the implementation of, monitor, document and report the progress of, and propose amendments to each Project Plan, including the allocation of qualified personnel, timelines, Project Budget and Results;
  - (c) monitor the progress of the Sutro Development Activities and review, discuss and comment on any Results thereunder;
  - (d) evaluate whether it is scientifically or technically feasible to create an ADC directed to the applicable Accepted Target in accordance with each Project Plan and make a recommendation to the Project Leaders;
  - (e) evaluate whether an ADC meets the applicable PS set forth in each Project Plan and make a recommendation to the Project Leaders;
  - (f) prepare Quarterly Reports based on reports to be provided by each Party of such Party's activities during the applicable Calendar Quarter;
  - (g) serve as the first forum for the settlement of disputes or disagreements resulting from or arising out of this Agreement;
  - (h) perform such other functions as appropriate to further the purposes of this Agreement, as mutually agreed to in writing by the Parties.

- 3.10 **Limitations of Powers of the JPT.** The JPT shall have no power to amend this Agreement or any Project Plan and shall have only such powers as are specifically delegated to it hereunder.
- 3.11 **Determinations of the JPT.** The JPT will take action by unanimous consent of the Parties, with each Party having a single vote, irrespective of the number of representatives actually in attendance at a meeting, or by a written resolution signed by the designated representatives of each of the Parties. In the event the JPT is unable to secure unanimous consent on any matter, the JPT shall delegate such matter to the Project Leaders.
- 3.12 **Meetings of the JPT.** The JPT shall hold meetings twice monthly by videoconference, telephone, web conference, or face to face meetings but in no event, shall such meetings be held in person less frequently than once every six (6) months, unless otherwise agreed by the JPT. At least three (3) members of the JPT will constitute a quorum for any meeting, provided that at least one (1) representative from each Party is present. The Project Leaders will alternately be responsible for organizing the meetings of the JPT and for distributing the agenda of the meetings. The Project Leader will include on the agenda any item within the scope of the responsibility of the JPT that is requested to be included by a Party, and will distribute the agenda to the Parties no less than two (2) days before any meeting of the JPT. A Party may invite other senior personnel of their organization to attend meetings of the JPT, as appropriate, provided, however, that such other senior personnel shall not have any duties of a JPT member. Each Party shall be responsible for its travel costs incurred for attending JPT meetings.
- 3.13 **JPT Meeting Minutes.** Minutes will be kept of all JPT meetings by a member of the JPT designated by the JPT and sent to all members of the JPT for review and approval within five (5) days after each meeting. Minutes will be deemed approved unless any member of the JPT objects to the accuracy of such minutes by providing written notice to the other members of the JPT within three (3) days of receipt of the minutes. In the event of any such objection that is not resolved by mutual agreement of the Parties, such minutes will be amended to reflect such unresolved dispute. In advance of each quarterly meeting of the Project Leaders, the JPT will prepare a report for the Project Leaders detailing the progress of activities under each Research Plan, any decisions that are needed from the Project Leaders and any matters on which the JPT could not reach agreement (each a “**Quarterly Report**”).
- 3.14 **Urgent Matters.** Notwithstanding anything in Section 3.4 or Section 3.11 expressed or implied to the contrary, in the event that an urgent issue or matter arises, that requires prompt action by the Project Leaders and / or the JPT, the Project Leaders and / or the JPT shall meet for the purpose of resolving the issue or matter. Such meeting shall take place as promptly as possible, with the immediacy of the issue or matter requiring action determining the time, place and manner of the conduct of the meeting
- 3.15 **Joint Intellectual Property Committee.** As soon as practicable after the Effective Date, the Parties shall form a joint intellectual property committee (the “**Joint Intellectual Property Committee**” or “**JIPC**”). The JIPC shall comprise no more than four (4) members, and shall be composed of an equal number of representatives from each Party.
- 3.16 **Functions and Authority.** During the Term the JIPC shall:
- (a) for each Project, draft and propose a Strategic IP Plan (and any amendments thereto) to the Project Leaders, which Strategic IP Plan at a minimum needs to detail the countries of filing and a patent filing strategy, which strategy shall (1) be aligned between the Parties to secure the maximum protection of Merck Technology, Product Technology, Sutro

Platform Technology and Sutro Technology, (2) include that in case that any proposed filing with respect to a Product Patent discloses a species generically covered by any proposed or already filed Sutro Patent and / or Sutro Platform Patent, Merck and Sutro will use good faith efforts to coordinate filings with respect to such Product Patent and such Sutro Patent and / or Sutro Platform Patent so that filings with respect to such Product Patent are made no earlier than the same day that filings with respect to such Sutro Patent and / or Sutro Platform Patent are made and (3) include that any proposed filing of a Sutro Patent and / or Sutro Platform Patent must not disclose unpublished Product Know-How without the JIPC's prior written consent;

- (b) oversee the drafting, filing, prosecution and maintenance of all Patent Rights generated from the activities under this Agreement in accordance with the Strategic JP Plan and Article 8, which shall include overseeing Sutro's reasonable opportunity to comment on all Product Patent filings and Merck's obligation to reasonably consider in good faith Sutro's comments with respect thereto;
- (c) as necessary, take day-to-day decisions relating to the drafting, filing, prosecution and maintenance of the resulting Patent Rights in accordance with the Strategic JP Plan and Article 8;
- (d) report to the Project Leaders on the drafting, filing, prosecution and maintenance of such Patent Rights;
- (e) propose to the Project Leaders any changes or additions to the Strategic IP Plan that the JIPC deems fit, and upon approval of said changes and additions, implement said changes and additions and
- (f) consider whether it is necessary to enter into any license agreements with a Third Party in respect to a Project, ADC or Product.

3.17 **Meetings of the JIPC.** During the Term, the JIPC will meet in person or by teleconference or videoconference on a frequency to be determined by the JIPC.

3.18 **Decisions of the JIPC.** The JIPC will take action by unanimous consent of the Parties, with each Party having a single vote, irrespective of the number of representatives actually in attendance at a meeting (but provided that at least one representative from each Party is in attendance), or by a written resolution signed by the designated representatives of each of the Parties. In the event the JIPC is unable to secure unanimous consent on any matter the decision shall be escalated to the Project Leaders. The JIPC shall however have no authority to amend any Strategic IP Plan or this Agreement.

3.19 **Minutes and Reports of the JIPC.** The JIPC will document their decisions regarding each Strategic IP Plan in the meeting minutes. Promptly after each meeting, one member of the JIPC will provide the others with a draft version of the meeting minutes for review and comment. Within forty (40) Business Days of each meeting, the JIPC will provide the Parties and the Project Leaders with a final agreed version of the meeting minutes.

**ARTICLE 4**  
**LICENSES AND OTHER RIGHTS**

- 4.1 **Grant of License to Merck.** Subject to the terms and conditions of this Agreement, Sutro hereby grants to Merck and its Affiliates an exclusive (even as to Sutro, except to the extent necessary for Sutro to perform the obligations and exercise the rights set forth in this Agreement), worldwide, royalty-bearing right and license (with the right to sublicense, subject to the provisions of Section 4.4) under the Sutro Technology, the Sutro Platform Technology, and Sutro's interest in Joint Technology to Exploit (subject to the provisions of Article 5) each Product in the Territory in the Field. The foregoing license shall not be deemed to grant rights to any biologic or other active pharmaceutical ingredient that may be included in a Product, apart from the ADC included in the Product. The license granted pursuant to this Section 4.1 shall not include any sublicense under the Stanford In-License, or any other rights to any Stanford Manufacturing Know-How or any other Stanford Technology, unless and until Merck receives such license pursuant to Section 5.8 to manufacture the Product itself.
- 4.2 **CFE Manufacturing Technology Back-up License to Merck.** Subject to the terms and conditions of this Agreement, Sutro hereby grants to Merck and its Affiliates a non-exclusive, worldwide, right and license (without the right to sublicense except to the Merck CMO, as provided below) under the CFE Manufacturing Technology in the Territory in the Field, which shall be exercisable solely in the event of Sutro's Inability To Perform and solely for granting a sublicense to a contract manufacturing organization selected by Merck ("**Merck CMO**") to use the CFE Manufacturing Know-How transferred to the Merck CMO in case of Sutro's Inability To Perform. Furthermore, (i) the Merck CMO shall not, and shall be contractually required not to, share with, or disclose to, any Third Parties (other than to a Merck CMO) any such CFE Manufacturing Know-How transferred by Sutro to such Merck CMO, and (ii) upon termination of the manufacturing agreement between Merck and the Merck CMO, the Merck CMO shall return to Sutro or, at Sutro's written request, destroy such CFE Manufacturing Know-How, and provide to Sutro a written confirmation thereof. Provided that the safeguards foreseen under this Section 4.2 are respected, Merck shall have the right to change the Merck CMO at its sole discretion. The foregoing grant of rights shall not result in a royalty payable for the manufacture of the CFE, but shall continue to incur royalties for the final sale of Product in accordance with Article 7.
- 4.3 **Stanford In-License Requirements.** The licenses granted under Section 4.1 and Section 4.2 shall be subject to, and limited by, the terms of Sections 4.3 and 15.3(D) of the Stanford In-License, and Merck agrees to comply with all such terms, including those set forth in Schedule 4.3.
- 4.4 **Grant of Sublicense by Merck.** Merck shall have the right, in its sole discretion, to grant sublicenses to the Product under the licenses granted in Section 4.1; provided, however, that the granting by Merck of a sublicense (a) shall not relieve Merck of any of its obligations hereunder or any liability under this Agreement and (b) any such sublicense shall be consistent with the terms and conditions of this Agreement.
- 4.5 **Trade Marks.** As between Sutro and Merck, Merck shall have the sole authority to select trademarks for each Product and shall own all such trademarks.
- 4.6 **Sutro Reporting.** If Sutro becomes aware of any issues related to the Sutro Technology or the Sutro Platform Technology, or the CFE Manufacturing Technology which may affect the Development, Commercialization or use of any Product, then Sutro shall provide Merck with all such information within such reasonable timelines which enable Merck to assess any impact on the Product.

**ARTICLE 5**  
**DEVELOPMENT, MANUFACTURE AND COMMERCIALIZATION OF PRODUCT**

- 5.1 **Development of the Product by Merck.** Merck shall have the exclusive right, and sole responsibility and decision-making authority, to research and Develop each Product and to conduct (either itself or through its Affiliates, agents, subcontractors and/or Sublicensees) all Clinical Trials and non-clinical studies Merck believes appropriate to obtain Regulatory Approval for each Product in the Field.
- 5.2 **Sutro Support in Development.** Sutro shall make its employees, consultants, contractors, advisors and agents ("**Representatives**") that are knowledgeable regarding the Sutro Technology, the Sutro Platform Technology or each Product (including the properties and functions thereof) reasonably available to Merck for scientific and technical explanations, advice and on-site support that may reasonably be required by Merck relating to the Development of each Product (the "**Development Support**"). The reasonable agreed costs of the Development Support to be provided by Sutro shall be reimbursed by Merck.
- 5.3 **Commercialization.** Merck shall have the exclusive right, and sole responsibility and decision-making authority, to Commercialize any Product itself or through one or more Affiliates or Sublicensees or other Third Parties selected by Merck and shall have the sole decision-making authority and responsibility in all matters relating to the Commercialization of the Product.
- 5.4 **Research Material Manufacturing.** Sutro shall manufacture and supply research quantities of the Product as reasonably required in order for the Parties to perform the activities pursuant to the applicable Project Plan. The cost for the supply of such research quantities of Product is included in the Project Budget of the corresponding Project Plan. However, Merck acknowledges that Sutro's facilities may only permit, based on generally accepted industry standards for management of high-potency pharmaceutical compounds, the handling of certain quantities of the applicable toxins necessary for inclusion in the Product, and if the quantity of Product required exceeds such quantities of toxin, Sutro will need to engage a Third Party contract manufacturer ("**CMO**") to manufacture such research quantities of toxin (and associated Linker) and to conjugate such toxin and Linker to the appropriate Antibody, which will be manufactured by Sutro. Merck shall have the right to perform a quality audit of the CMO and Sutro shall only engage such CMO upon Merck's written approval of the CMO and the associated costs, such approval not to be unreasonably withheld. In such case, Merck shall be responsible for the costs of such CMO (including technology transfer and ramp-up) to manufacture the Product.
- 5.5 **Product Supply Agreement.** In addition, the Product for use in GLP Toxicology Studies will be manufactured and supplied solely by Sutro pursuant to a separate supply agreement (the "**Product Supply Agreement**"), in sufficient quantities and quality (as mutually agreed by the Parties and set forth in a supply plan) at a transfer price of [\*] to permit Merck to conduct the GLP Toxicology Studies. At Merck's election, the Product Supply Agreement shall also include the supply by Sutro to Merck of Product for Phase I Clinical Trials and Phase II Clinical Trials. The Parties shall negotiate in good faith and execute such Product Supply Agreement at the latest on the date that is [\*] after written notice by Merck to Sutro of its desire to enter into a Product Supply Agreement (the "**Merck Notification Date**"). If the Parties are unable to agree on a Product Supply Agreement by the date that is [\*] months after the Merck Notification Date, Sutro will initiate the transfer of the process for production of the Product to a CMO as set forth in Section 5.7.



**CFE Supply.**

(a) **Supply by Sutro.** Within [\*] months after Sutro's delivery of the first ADCs that meet the PS, Sutro and Merck shall negotiate in good faith the terms of the supply agreement for the supply of Cell Free Extract for use in the manufacture of Product (the "**CFE Supply Agreement**") at a transfer price of the Cost of Goods. Except as set forth in Section 5.6 (b), Merck shall purchase CFE exclusively from Sutro. Attached hereto as Schedule 5.6 are the non-binding terms for the CFE Supply Agreement. If the Parties are unable to reach agreement on the terms of the CFE Supply Agreement by the end of such [\*] month period, then within thirty (30) days following the end of such [\*] month period the Parties shall submit the matter to an arbitrator as follows: (a) the arbitrator will be selected by the Parties and shall have expertise in biopharmaceutical manufacturing and supply agreements, (b) each Party shall deliver to the arbitrator and the other Party its proposed draft of the CFE Supply Agreement based on the CFE Supply Agreement Term Sheet as attached in Schedule 5.6, (c) the arbitrator shall give each Party the opportunity to explain to the arbitrator why its draft of the CFE Supply Agreement is more appropriate than the other Party's, which may include conducting an oral argument or an evidentiary hearing if the arbitrator determines that it would assist the arbitrator's decision of which draft of the CFE Supply Agreement to select, (d) the arbitrator shall, within fifteen (15) Business Days after receipt of the two draft CFE Supply Agreements and having heard each Party's rationale for its proposal, select one draft CFE Supply Agreement from the two (2) submitted, that fully reflects the CFE Supply Agreement Term Sheet and (e) the draft CFE Supply Agreement selected by the arbitrator shall be executed by both Parties and binding on the Parties and the arbitrator may not modify or alter the terms of the CFE Supply Agreement. If the Parties cannot agree on an arbitrator within fifteen (15) days after the end of the [\*] month period, then the London Chamber of Commerce and Industry shall appoint the arbitrator.

(b) **Supply by CMOs.** In addition, upon Merck's request, Sutro will enter into appropriate agreements to transfer the process for production of Cell Free Extract to [\*] selected by Sutro and reasonably acceptable to Merck (the "**CFE-CMOs**") in order to allow for the manufacture and supply of the Cell Free Extract for production of the Product in the required quantity and quality on terms and conditions [\*] (the "**CFE CMO Supply Agreement**"), provided that, Merck may make such request for (1) [\*] no earlier than [\*] ([\*]) months after Sutro's delivery of [\*], and (2) [\*], no earlier than [\*] ([\*]) months prior to the first planned Phase III Clinical Trial of a Product. Merck shall reimburse Sutro for its reasonable costs to effect the transfer of technology consistent with standard industry rates for services of this kind. Merck shall have the right to perform a quality audit of any CFE-CMO and Sutro shall only engage any such CFE-CMO upon Merck's [\*] of such CFE-CMO. Any CFE CMO Supply Agreements will be solely for the supply of CFE to be used in the manufacture of Products for Merck. The CFE CMO Supply Agreement between Sutro and each such CMO will provide for the license and transfer of the relevant processes, documents, and materials included in any Know-How controlled by Sutro, as necessary for such manufacture and supply; provided that, [\*], such CMO shall not share with, or disclose to, Merck, its Affiliates or subcontractors any know-how transferred by Sutro to such CMO, and Merck, its Affiliates and subcontractors shall not solicit any such sharing or disclosure. Sutro shall cooperate with Merck on the final form of CFE CMO Supply Agreement to be used with each such CMO and any such CFE CMO Supply Agreement shall include terms [\*]. In the event of Sutro's Inability To Perform, then Sutro shall [\*]. The grant of rights from Sutro to each such CMO shall not result in a royalty payable for the manufacture of the CFE, but the final sale of Product shall continue to incur royalties in accordance with Article 7.

(c) **Support by Sutro.** In addition, Sutro shall, or shall cause, representatives that are knowledgeable regarding the CFE Manufacturing Technology reasonably available to Merck for scientific and technical explanations, advice and on-site support, as reasonably required by Merck (the ‘**CFE Manufacturing Support**’), including the subject matter of the manufacturing technology transfer and manufacturing scale-up. The reasonable agreed costs for the CFE Manufacturing Support to be provided by Sutro shall be reimbursed by Merck.

- 5.7 **CMO Supply.** If, at any time commencing with the GMP production of Product for use in Phase I Clinical Trials, Merck desires to have Sutro enable [\*] to manufacture Product (the “**Product CMOs**”, [\*], then Merck shall notify Sutro in writing. Following such request, Sutro will enter into appropriate agreements to transfer the process for production of the Product to [\*] that [\*] in order to allow for the manufacture and supply of the Product in the required quantity and quality. The agreement between Sutro and each such CMO will provide for the license and transfer of the relevant processes, documents, and materials included in any Know-How controlled by Sutro, as necessary for such manufacture and supply; provided that such CMO shall not transfer any tangible embodiments of the CFE, and Merck, its Affiliates and subcontractors shall not solicit any such sharing or transfer. Sutro shall cooperate with Merck on the final form of supply agreement to be used with each such CMO and shall include in any agreement that such CMO is authorized to manufacture and supply Product exclusively to Merck. [\*].
- 5.8 **Phase III Clinical Trial and Commercial Manufacturing Supply.** Except as otherwise provided in this ARTICLE 5, and not including the right to produce Cell Free Extract (which shall be governed by Section 5.6), Merck shall have the exclusive right to manufacture the Product itself or through one or more Affiliates or Sublicensees or other Third Parties selected by Merck (including, at Merck’s election, an existing Product CMO). No earlier than [\*] months prior to the planned start of the first Phase III Clinical Trial for a Product and pursuant to written notice by Merck to Sutro and a transfer plan to be agreed upon by the Parties, Sutro will transfer to Merck the process for production of the Product, including any Sutro Know-How and any Sutro Platform Know-How relating to the Product, using the Cell Free Extract. Sutro shall make representatives that are knowledgeable regarding the Sutro Platform Technology, the Sutro Technology and / or the Product reasonably available to Merck for scientific and technical explanations, advice and on-site support, that may reasonably be required by Merck, relating to the manufacture of the Product and the manufacturing technology transfer (the “**Manufacturing Support**”), including the subject matter of the manufacturing technology transfer and manufacturing scale-up. The reasonable agreed costs of the Manufacturing Support to be provided by Sutro shall be reimbursed by Merck consistent with standard industry rates for services of this kind. At such time as the process for the production of the Product is transferred to Merck [\*], the license in Section 4.1 shall include a sublicense under the Stanford In-License to the Stanford Manufacturing Know-How and Stanford Technology necessary to produce the Product using the CFE. Sutro shall deliver or cause to be delivered the CFE to Merck and / or the Product CMOs specified by Merck pursuant to the CFE Supply Agreement set forth in Section 5.6.
- 5.9 **Diligence by Sutro.** Sutro shall use Commercially Reasonable Efforts to perform its manufacture, supply and technology transfer obligations under this Agreement, and will comply with all Laws and standards governing such manufacture and supply. Specifically, Sutro will ensure that the Cell Free Extract, in the required quality, [\*] available from [\*] CMOs for the production of Product.
- 5.10 **Diligence by Merck.** Subject to Sutro’s fulfillment of its obligations under this Agreement, Merck shall use Commercially Reasonable Efforts to Develop and seek Regulatory Approval for [\*] for each Named Target and Accepted Target, and after receiving Regulatory Approval for any such Product, shall use Commercially Reasonable Efforts to Commercialize such Product, provided, that

such Development and Commercialization obligations shall be expressly conditioned upon the continuing absence of any adverse condition or event relating to the safety or efficacy of the Product, legal impediments, or Third Party intellectual property rights, in each case that would result in the further Development and Commercialization materially adversely affected, and Merck's obligation to Develop and Commercialize Product shall be delayed or suspended so long as, in Merck's opinion, any such condition or event exists. Merck shall have the exclusive right to determine, in its sole discretion, the launch strategy for Product, subject to its exercise of Commercially Reasonable Efforts and the availability of any necessary Third Party licenses or other rights. Activities by Merck's Affiliates and Sublicensees will be considered as Merck's activities under this Agreement for purposes of determining whether Merck has complied with its obligation to use Commercially Reasonable Efforts. Merck shall be relieved of its diligence obligations under this Section 5.10 starting from the date Merck provides Sutro with a termination notice pursuant to Section 12.2 or 12.3. If Merck ceases to Develop or seek Regulatory Approval for [\*] for a Named Target or Accepted Target (including in the case Merck determines that it would satisfy Commercially Reasonable Efforts to discontinue its efforts) or ceases to Commercialize such Product, then such Named Target or Accepted Target shall no longer be subject to Section 2.10 and Sutro will have the right to enter into license or collaboration agreements with a Third Party regarding an ADC to such Named Target or Accepted Target.

- 5.11 **Right of Merck to Subcontract.** Merck may exercise any of its rights, or perform any of its obligations, under this Agreement (including any of the rights licensed in Section 4.1) by subcontracting the exercise or performance of all or any portion of such rights and obligations on Merck's behalf. Any subcontract granted or entered into by Merck as contemplated by this Section 5.11 of the exercise or performance of all or any portion of the rights or obligations that Merck may have under this Agreement (a) shall not relieve Merck of any of its obligations hereunder or any liability under this Agreement and (b) any such subcontract shall be consistent with the terms and conditions of this Agreement.

## ARTICLE 6 REGULATORY MATTERS

- 6.1 **Regulatory Filings.** As between Merck and Sutro, Merck shall own and maintain all regulatory filings and Regulatory Approvals for the Product, including all INDs and MAAs.
- 6.2 **Communications with Authorities.** Merck (or one of its Affiliates or Sublicensees) shall be responsible, and act as the sole point of contact, for communications with Regulatory Authorities in connection with the Development, Commercialization, and manufacturing of Product. Following the Effective Date, Sutro shall not initiate, with respect to Product, any meetings or contact with Regulatory Authorities without Merck's prior written consent. To the extent Sutro receives any written or oral communication from any Regulatory Authority relating to Product, Sutro shall (a) refer such Regulatory Authority to Merck, and (b) as soon as reasonably practicable (but in any event within twenty-four (24) hours), notify Merck and provide Merck with a copy of any written communication received by Sutro or, if applicable, complete and accurate minutes of such oral communication.
- 6.3 **Sutro Technology, Sutro Platform Technology and CFE Manufacturing Technology.** If the competent Regulatory Authority in any country initiates any oral communication with Merck solely regarding the Sutro Technology, Sutro Platform Technology or CFE Manufacturing Technology incorporated into the Product, Merck shall have the right to respond to such communication to the

extent reasonably necessary or appropriate under the circumstances; provided, however, that (a) Merck shall use reasonable efforts to limit the communications solely regarding the Sutro Technology, Sutro Platform Technology or CFE Manufacturing Technology incorporated into the Product that are conducted without the participation of Sutro; (b) promptly thereafter, Merck shall provide Sutro with written notice thereof in reasonably specific detail describing the communications solely regarding the Sutro Technology, Sutro Platform Technology or CFE Manufacturing Technology incorporated into the Product; and (c) Merck promptly shall provide Sutro with copies of all minutes and other materials resulting therefrom. Merck promptly shall provide Sutro with copies of all written communications from such Regulatory Authority solely regarding the Sutro Technology, Sutro Platform Technology or CFE Manufacturing Technology incorporated into the Product. With respect to any filing, communication or other submission with the Regulatory Authority of any country solely regarding the Sutro Technology, Sutro Platform Technology or CFE Technology incorporated into the Product, (i) Merck shall provide Sutro with an advance copy of the reasonably complete draft thereof; (ii) Sutro shall have a reasonable opportunity to review, comment and consult on such draft; (iii) the parties shall discuss Sutro's comments solely regarding the Sutro Technology, Sutro Platform Technology or CFE Manufacturing Technology incorporated into such Product; and (iv) Merck shall in good faith consider the reasonable comments of Sutro solely regarding the Sutro Technology, Sutro Platform Technology or CFE Manufacturing Technology incorporated into such Product.

- 6.4 **DMF.** Sutro will file the DMF with the FDA. Sutro shall own the DMF and hereby grants to Merck the right to cross-reference the DMF for the Product, but no right to access the underlying data related to the production of the Cell Free Extract. With respect to any territories where Sutro does not have a DMF or a functional equivalent, Sutro will coordinate with Merck, at Merck's request and expense, the preparation and submission of documents and materials [\*] necessary or reasonably useful to obtain and / or maintain Regulatory Approval for a Product in such territory, it being understood that wherever possible Sutro will disclose confidentially Sutro CFE Manufacturing Technology to the applicable Regulatory Authority.
- 6.5 **Sutro Support in Regulatory Matters.** Subject to written agreement on the scope and Merck's reimbursement of costs and expenses Sutro shall make its Representatives that are knowledgeable regarding the Sutro Technology, the Sutro Platform Technology, the CFE Manufacturing Technology or the Product available to Merck for regulatory explanations, advice and on-site support, that may reasonably be required by Merck relating to regulatory matters (including preparation and filing for any INDs and MAAs and obtaining and maintaining Marketing Authorizations) (the "**Regulatory Support**"). [\*], Sutro will transfer all documentation as is necessary or reasonably useful to obtain and / or maintain Regulatory Approval for any Product to Merck.
- 6.6 **Recalls.** Merck shall have the sole right to determine whether and how to implement a recall or other market withdrawal of the Product.

#### ARTICLE 7 FINANCIAL PROVISIONS

- 7.1 **Initial Fee and Research Fees.** In partial consideration of Sutro's grant of the rights and licenses to Merck hereunder, Merck shall pay, or cause to be paid, to Sutro a fee of ten million Dollars (USD 10,000,000), [\*] following the Effective Date and after receipt of the corresponding invoice from Sutro. Payment of the initial fee shall be subject to any withholding tax obligations set forth in Section 7.12(a).

Merck will provide research funding to Sutro to engage in the agreed Projects under this Agreement according to the Project Budget set forth in the Project Plans at the FTE Rate, payable based upon actual work performed as demonstrated by written records quarterly, in arrears. Within thirty (30) days of the end of each Calendar Quarter in which Sutro is engaged in Sutro Development Activities of any Project, Sutro shall submit an invoice to Merck (addressed to Merck's Project Leader) for the actual Sutro FTE Expenses it incurred during such Calendar Quarter in connection with such Sutro Development Activities, together with a written report setting forth in reasonable detail such Sutro FTE Expenses, on the basis of the defined FTE Rate and Project Budget using the format attached hereto as Exhibit B. Following receipt of such written report and invoice, Merck shall, subject to all of the provisions of this Section 7.1, within thirty (30) days after receipt of such written report and invoice, and after approval by Merck (not to be unreasonably withheld or delayed) reimburse Sutro for those costs and expenses. Any increase in Sutro FTE Expenses compared to the Project Budget will not be accepted by Merck without prior written consent as described in Section 3.3(f). Notwithstanding anything express or implied in the foregoing provisions of this Section or elsewhere in this Agreement to the contrary, Merck shall have no obligation to reimburse Sutro in respect of any expenses pursuant to this Section 7.1, and Sutro shall have no obligation to conduct any Sutro Development Activities, until after such time the JPT has approved in writing: (i) a detailed description of Sutro Development Activities, (ii) the associated timelines in connection with such Sutro Development Activities and (iii) the applicable Project Budget.

7.2 **Milestone Payments.** As further partial consideration for Sutro's grant of the rights and licenses to Merck hereunder, Merck shall pay, or cause to be paid, to Sutro the following non-refundable milestone payments with respect to each Product to achieve the milestone events described below, whether such achievement is by Merck or its Affiliate or Sublicensee. Merck shall promptly notify Sutro in writing of the achievement of any such milestone event and Sutro shall issue Merck an invoice for the amount of the corresponding milestone payment, which invoice Merck shall pay within sixty (60) days following receipt of such invoice.

<u>Milestone event for each Product</u>	<u>Amount in USD</u>
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]

For the avoidance of doubt, the total maximum milestones payable under this Section 7.2 for each Product shall not exceed fifty-two million and five hundred thousand USD (USD 52,500,000).

With respect to each milestone, the milestone payments to be made under this Agreement shall be due and payable only once per Product.

7.3 **Royalty Payments for Product.**

(a) **Royalty Rate.** As further consideration for Sutro’s grant of the rights and licenses to Merck hereunder, Merck shall, during each applicable Royalty Term, pay to Sutro a royalty on worldwide aggregate annual Net Sales of Product for each Calendar Year, on a Product-by-Product and Country-by-Country basis at the percentage rates set forth below (subject to Sections 7.3(c), and 7.5 below), whereby it is understood that a higher royalty rate shall only be payable for that portion of Net Sales that exceeds the threshold of sales that determines such higher royalty rate:

<u>Annual Worldwide Net Sales of Product per Calendar Year (in USD)</u>	<u>Incremental Royalty Rate</u>
For Net Sales of Product from USD 0 up to and including USD \$[*]	[*]%
For that portion of Net Sales of Product that is greater than USD \$[*] and less than or equal to USD [*]	[*]%
For that portion of Net Sales of Product that is greater than USD \$[*]	[*]%

By way of illustration, assume in a Calendar Year, during the Royalty Term, that (i) aggregate annual Net Sales of a Product total USD \$1,500,000,000 and (ii) no adjustments or deductions to payments under Section 7.5 apply. The total royalties due and payable by Merck to Sutro for such Net Sales would be [\*] USD (USD \$[\*]), calculated as follows:

USD \$[\*] x [\*]% = USD \$[\*]

USD \$[\*] x [\*]% = USD \$[\*]

USD \$[\*] x [\*]% = USD \$[\*]

Total Royalty = USD \$[\*]

(b) **Net Sales Subject to Royalty Payments.** For purposes of determining whether a royalty threshold has been attained, only Net Sales that are subject to a royalty payment shall be included in the total amount of Net Sales and any Net Sales that are not subject to a royalty payment shall be excluded. In addition, in no event shall the manufacture of a Product give rise to a royalty obligation (provided that the final sale of Product shall result in the royalty). For clarity, Merck’s obligation to pay royalties to Sutro under this Article 7 is imposed only once with respect to the same unit of Product regardless of the number of Sutro Patents pertaining thereto.

(c) **Royalty Payment Calculation.** In the event certain Net Sales are subject to the royalty reductions set forth in Section 7.5, Merck shall calculate the royalty rates as follows: Merck shall allocate the Net Sales during a particular Calendar Quarter to the relevant Net Sales band set forth in Section 7.3 (a), and shall calculate the proportion of Net Sales within such band that are: (i) not subject to any royalty reduction pursuant to Section 7.5 (to which the full royalty rate in Section 7.3 (a) shall apply); and (ii) subject to a royalty reduction pursuant to Section 7.5 (to which the applicable percentage of the royalty rate in Section 7.3(a) shall apply). Notwithstanding the terms of Section 7.5, the maximum reductions taken in the aggregate under Section 7.5 shall not reduce the effective royalty rate applicable to Net Sales by more than [\*] percent ([\*]%) of the rate set

forth in Section 7.3(a). By way of example, pursuant to Section 7.3(a), the royalty rate without reductions for the first \$[\*] in Net Sales is [\*]%, then, if, pursuant to Section 7.5 the effective royalty rate after all reductions would be lower than [\*]%, then the effective royalty rate shall be set at [\*]%.

7.4 **Additional Royalties.** Merck shall pay to Sutro the following additional [\*] royalty payments (the “**Additional Royalties**”): (i) an additional royalty of [\*]% on aggregate annual worldwide Net Sales of Product generated by Merck in the [\*] full Calendar Year following the First Major Commercial Sale (as defined below); (ii) an additional royalty of [\*]% on aggregate annual worldwide Net Sales of Product generated by Merck in the [\*] full Calendar Year following the First Major Commercial Sale; and (iii) an additional royalty of [\*]% on aggregate annual worldwide Net Sales of Product generated by Merck in the [\*] full Calendar Year following the First Major Commercial Sale. [\*]. As used herein, the “**First Major Commercial Sale**” means the First Commercial Sale in any of the Major Market Countries.

7.5 **Reductions, Deductions and Reimbursements.**

(a) **Know-How Royalty.** If, during the Royalty Term, (i) in a Major Market Country, a Competing Product is being Commercialized, and the Product is (a) [\*], or (b) [\*], Merck may reduce the royalties that would otherwise be due pursuant to Section 7.3 based on Net Sales in such Major Market Country by [\*] percent ([\*]%) provided however, that such royalties shall only be reduced until [\*], Merck may reduce the royalties that would otherwise be due pursuant to Section 7.3 based on Net Sales in such country by [\*] percent ([\*]%) provided however, that such royalties shall only be reduced until the earlier of [\*].

(b) **Third Party License Agreements by Merck.** Subject to the terms and conditions of this Agreement, if Merck or any of its Affiliates or Sublicensees enter into a Third Party License Agreement(s) in as far as such Third Party License Agreement is required by the use of the Sutro Technology, Sutro Platform Technology or CFE Manufacturing Technology with respect to a Product, Merck will be entitled to [\*].

(c) **Stanford In-License.** Except as foreseen in this Section 7.5(c), Sutro shall be responsible for the timely payment of any amounts due under the Stanford In-License, and in the event that Sutro shall fail to make any payment when due under the Stanford In-License, Merck shall have the right but not the obligation to make such payment on behalf of Sutro. [\*].

(d) **Third Party Agreements by Sutro.** To the extent Merck agrees to use any Third Party Technology licensed by Sutro in connection with the Development or Commercialization of a Product, Merck shall be responsible for paying royalties or other amounts due to the applicable Third Party in consideration for the use of such Third Party Technology (other than the Stanford In-License and the Scripps In-License) and complying with any obligations on a sublicensee under such agreements.

7.6 **Timing of Payment.** Royalties payable under Section 7.3(a) shall be payable on actual Net Sales and shall accrue at the time the invoice for the sale of Product is delivered. Royalty obligations that have accrued during a particular Calendar Quarter shall be paid, on a Calendar Quarter basis, within [\*] days after the end of each Calendar Quarter during which the royalty obligation accrued. Royalties payable under Section 7.4 shall be paid within [\*] days after the end of Calendar Year during which the royalty obligation accrued.

7.7 **Mode of Payment and Currency; Invoices.**

(a) **Currency and invoices.** All payments to Sutro hereunder shall be made by deposit of USD in the requisite amount to such bank account as Sutro may from time to time designate by written notice to Merck. With respect to sales not denominated in USD, Merck shall convert applicable sales in foreign currency into USD by using the then current and reasonable standard exchange rate methodology applied to its external reporting. Based on the resulting sales in USD, the then applicable royalties shall be calculated. The Parties may vary the method of payment set forth herein at any time upon mutual written agreement, and any change shall be consistent with the local Law at the place of payment or remittance. Subject to 7.12, the invoice issued by Sutro will be compliant with the German VAT regulations (reverse-charge-mechanism under the German VAT code).

(b) **Invoices.** Sutro shall address its invoices to:

Merck KGaA  
Frankfurter Strasse 250  
64293 Darmstadt  
Germany  
Attn: Merck Project Leader

With a copy to:

Merck KGaA  
Frankfurter Strasse 250  
64279 Darmstadt  
Att: R&D Controlling

7.8 **Royalty Reports and Records Retention.** Within [\*] days after the end of each Calendar Quarter during which Product has been sold, Merck shall deliver to Sutro, together with the applicable royalty payment due for such Calendar Quarter, a written report, on a Product-by-Product and a country-by-country basis, that includes the Net Sales by country, the applicable royalty rate, the royalties payable in USD, the applicable exchange rate for such Calendar Quarter. Such report shall be deemed Confidential Information of Merck subject to the obligations of Article 9 of this Agreement. For two (2) years after each sale of Product occurs, Merck shall, and shall ensure that its Affiliates and Sublicensees, keep complete and accurate records of such sale in sufficient detail to confirm the accuracy of the royalty calculations hereunder.

7.9 **Legal Restrictions.** If at any time legal restrictions prevent the remittance by Merck of all or any part of royalties due on Net Sales in any country, Merck shall notify Sutro promptly in writing and Merck shall have the right and option to make such payment by depositing the amount thereof in local currency to an account in the name of Sutro in a bank or other depository selected by Sutro in such country.

7.10 **Late Payments.** All payments under this Agreement shall earn interest from the date due until paid at a per annum rate equal to the lesser of (a) the maximum rate permissible under Law and (b) [\*] percent ([\*]%) above the monthly Reuters 01 EURIBOR, measured at 2 p.m. Frankfurt/Germany time on the date payment is due. Interest will be calculated on a [\*] basis. An example of the interest rate calculation follows, assuming that the Reuters interest rate is [\*]%, and a payment of USD \$[\*] is [\*] overdue:



Step 1: applicable annual interest rate on a [\*] basis = [\*]% + [\*]% = [\*]%

Step 2: applicable interest rate for the period of delay = [\*] x [\*]% = [\*]%

Step 3: total interest due = \$[\*] x [\*]% = \$[\*] USD

7.11

**Audits.**

(a) **Audits Generally.** During the Royalty Term and for one (1) Calendar Year thereafter, and not more than once in each Calendar Year, Merck shall permit, and shall cause its Affiliates or Sublicensees to permit, an independent certified public accounting firm of nationally recognized standing selected by Sutro, and reasonably acceptable to Merck or such Affiliate or Sublicensee, to have access to and to review, during normal business hours upon reasonable prior written notice, the applicable records of Merck and its Affiliates or Sublicensees to verify the accuracy of the royalty reports and payments under this Article 7. Such review may cover the records for sales made in any Calendar Year ending not more than two (2) years prior to the date of such request. The accounting firm shall disclose to Sutro and Merck only whether the royalty reports are correct or incorrect and the specific details concerning any discrepancies. No other information shall be provided to Sutro.

(b) **Audit-Based Reconciliation.** If such accounting firm concludes that additional royalties were owed during such period, and Merck agrees with such calculation, Merck shall pay the additional undisputed royalties within thirty (30) days after the date Sutro delivers to Merck such accounting firm's written report. If such accounting firm concludes that an overpayment was made, such overpayment shall be fully creditable against amounts payable in subsequent payment periods or, if no payment is expected within that year at Merck's request, shall be promptly reimbursed to Merck. If Merck disagrees with such calculation, it may retain its own independent certified public accounting firm of recognized standing and reasonably acceptable to Sutro, to conduct a review, and if such firm concurs with the other accounting firm, Merck shall make the required payment within thirty (30) days after the date Merck receives the report of its accounting firm. If Merck's accounting firm does not concur, Merck and Sutro shall meet and negotiate in good faith a resolution of the discrepancies between the two firms. Sutro shall pay for the cost of any audit, unless Merck has underpaid Sutro by [\*] percent ([\*]%) or more for the audited period, in which case Merck shall pay for the costs of audit.

(c) **Audit of Cost of Goods.** Sutro shall keep or cause to be kept accurate records in sufficient detail to enable the Cost of Goods for Product or CFE, as the case may be, supplied to Merck hereunder to be determined. Sutro, upon the written request (including reasonable notice) and at the expense of Merck, and in any event not more frequently than once in any Calendar Year, shall permit an independent public accountant of national prominence selected by Merck, and approved by Sutro (with approval not unreasonably to be withheld), to have access during normal business hours to those records as may be reasonably necessary to verify the accuracy of the Cost of Goods of the Product or the CFE, as the case may be, supplied to Merck hereunder for any Calendar Year ending not more than two (2) years prior to the date of the aforementioned written request. If such accountant reasonably determines that the Cost of Goods have been overstated or understated, then one Party shall make a payment to the other Party as necessary to correct the amount of the payments made for Product or CFE, as the case may be, supplied hereunder, which payment shall be based on the difference between the actual and the misstated Cost of Goods. In addition, if such accountant reasonably determines that the Cost of Goods have been overstated for the audited period by more than [\*] percent ([\*]%), then Sutro shall pay the reasonable costs of such audit.

(d) **Audit Confidentiality.** Each Party shall treat all information that it receives under this Section 7.11 in accordance with the confidentiality provisions of Article 9 of this Agreement, and shall cause its accounting firm to enter into an acceptable confidentiality agreement with the other Party obligating such firm to retain all such financial information in confidence pursuant to such confidentiality agreement, except to the extent necessary for such Party to enforce its rights under this Agreement. The terms of this Section 7.11 shall apply *mutatis mutandis* with respect to Merck's right to audit Sutro's records related to those Out-of-Pocket Expenses for which Sutro seeks reimbursement hereunder.

7.12 **Taxes.**

(a) **Withholding Tax.** Sutro shall be responsible for the payment of any and all Taxes levied on account of the royalties and other payments paid to Sutro by Merck or its Affiliates or Sublicensees under this Agreement. If Law requires that Taxes be deducted and withheld from royalties or other payments paid under this Agreement, Merck shall (i) deduct those Taxes and interests and penalties assessed thereon from the payment or from any other payment owed by Merck hereunder; (ii) pay the Taxes to the proper Governmental Body; (iii) send evidence of the obligation together with proof of Tax payment to Sutro within one hundred (100) days following such payment; (iv) remit the net amount, after deductions or withholding made under this Section 7.12(a); and (v) cooperate with Sutro in any way reasonably requested by Sutro, to obtain available reductions, credits or refunds of such Taxes; provided, however, that Sutro shall reimburse Merck for Merck's Out-of-Pocket Expenses incurred in providing such assistance. Assuming that Sutro is the beneficial owner of the Sutro Technology and the Sutro Platform Technology, the cooperation referred to in subclause (v) of the foregoing sentence shall include Sutro providing Merck with a written confirmation from the competent tax authority on the German tax application form that Sutro has its residence in the United States which would allow the Parties to benefit from the reduced withholding Tax rate set forth in the Double Taxation Convention existing between Germany and the United States.

(b) **Value Added Tax or any other indirect taxes** For VAT purposes invoiced amounts are net amounts. In case the transactions under this Agreement are subject to VAT (or similar GST or sales Taxes) within the United States, VAT shall be added to the net amounts and be paid by Merck to Sutro. Sutro shall remit such VAT to the proper Tax authorities and shall cooperate with Merck in any way reasonably requested by Merck, to obtain available reductions, credits or refunds of any VAT amount attributable to the transactions under this Agreement unless otherwise stated by local law. Merck is entitled to receive a proper invoice where any VAT amount is shown separately, if applicable.

**ARTICLE 8  
INVENTIONS AND PATENTS**

8.1 **Disclosure of Inventions.** Merck will promptly disclose to Sutro if it invents, conceives, develops or reduces to practice any Joint Technology, or Sutro Platform Technology. Sutro will promptly disclose to Merck if it invents, conceives, develops or reduces to practice any Joint Technology or Product Technology.

8.2 **Further Assurances.** Sutro shall require all of its employees, and use its best efforts to require its contractors and agents, and any Affiliates and Third Parties working on its behalf under this Agreement (and their respective employees, contractors and agents), to assign to Sutro, and, as the

case may be, to Merck, any rights, title and interest in and to Patent Rights and Know-How, without additional compensation, as is necessary to fully affect the sole and joint ownership of Sutro Technology, Sutro Platform Technology, Product Technology and Joint Technology. Merck shall require all of its employees, and use its best efforts to require its contractors and agents, and any Affiliates, Sublicensees and Third Parties working on its behalf under this Agreement (and their respective employees, contractors and agents), to assign to Merck, and, as the case may be, to Sutro, any rights, title and interest in and to Patent Rights and Know-How, without additional compensation, as is necessary to fully effect the sole and joint ownership of Sutro Technology, Sutro Platform Technology, Product Technology and Joint Technology.

### 8.3 Ownership of Intellectual Property

- (a) **Sutro Rights.** The Parties acknowledge and agree that Sutro is and will be the sole and exclusive owner of all right, title and interest in and to any Sutro Technology; any Sutro Platform Technology and any CFE Manufacturing Technology.
- (b) **Merck Rights.** The Parties acknowledge and agree that Merck is and will be the sole and exclusive owner of all right, title and interest in and to any Merck Technology and Product Technology.
- (c) **Joint Technology.** The Parties acknowledge and agree that the Parties will each own an equal, undivided interest in Joint Technology. Each Party will have the right to Exploit the Joint Technology without a duty of seeking consent of or accounting to the other Party; provided, that except as provided in Section 8.3(c) below, neither Party will have the right to disclose (except as provided in Article 9) or license (except as may be permitted under Article 4) any Joint Technology without the prior written consent of the other Party.
- (d) **Ownership of Linkers and Payloads.** Ownership of Linkers, Payloads, or Linker-Payload combinations first developed under this Agreement, and all intellectual property rights therein, that belong neither to the Sutro Platform Technology nor to the Product Technology shall be determined according to the law of inventorship of the United States. If one of Linker or Payload used belongs to the Product Technology and the remaining moiety belongs to the Sutro Platform Technology any resulting Linker-Payload combination developed under this Agreement and all intellectual property rights therein shall be jointly owned between the Parties and belong to Joint Technology.
- (e) **Rights for Replaced Targets.** Each Party shall have the right to use, disclose and license its interest in any Joint Technology arising from any of the Named Targets or Accepted Targets that were replaced pursuant to Section 2.4. Merck hereby grants to Sutro a worldwide, royalty-free, non-exclusive license (with right to sublicense) to practice the Product Technology invented, conceived or developed under this Agreement from any of the Named Targets or Accepted Targets that were replaced pursuant to Section 2.4; provided that the foregoing license will not include rights to any Merck Antibody, Merck Payload or Merck Linker, or any improvements to, or molecules comprising any of the foregoing.

**Patent Prosecution and Maintenance.**

(a) **Sutro Patents.** Sutro shall have the first right, but not the obligation, to file, prosecute and maintain Sutro Patents in Sutro's name. Sutro shall bear all costs and expenses of filing, prosecuting and maintaining Sutro Patents. Sutro shall keep Merck informed of the status of the filing and prosecution of Sutro Patents or related proceedings (e.g. interferences, oppositions, reexaminations, reissues, revocations or nullifications) in a timely manner, and will take into consideration the advice and recommendations of Merck. At Sutro's request, Merck will provide Sutro with reasonable assistance, at Sutro's sole expense, in prosecuting Sutro Patents to the extent possible, including providing such data in Merck's Control that is, in Merck's reasonable judgment, helpful to support the prosecution of a Sutro Patent.

(b) **Election Not to file and Prosecute Sutro Patents** If Sutro elects not to file or to continue to prosecute or maintain a Sutro Patent in Sutro's name in any country worldwide, then it shall notify Merck in writing at least ninety (90) days before any deadline applicable to the filing, prosecution or maintenance of such Sutro Patent, as the case may be, or any other date by which an action must be taken to establish or preserve such Sutro Patent in such country or possession. In such case, Merck shall have the right at Merck's sole expense to pursue the filing or support the continued prosecution or maintenance of such Sutro Patent.

(c) **Patent Term Extension for Sutro Patents.** Sutro shall have the first right, but not the obligation, in Sutro's name, to obtain patent term extensions wherever available for Sutro Patents. Merck shall provide Sutro, at Sutro's sole expense, with all relevant information, documentation and assistance in this respect as may reasonably be requested by Sutro. Any such assistance, supply of information and consultation shall be provided promptly and in a manner that will ensure that all patent term extensions for Sutro Patents may be obtained wherever legally permissible, and to the maximum extent available. In the event that any election with respect to obtaining patent term extensions is to be made, Merck shall have the right to make such elections, and Sutro shall abide by all such elections.

(d) **Joint Patents.** [\*], to file, prosecute and maintain Joint Patents in both Parties' names. The Parties shall [\*] costs and expenses of filing, prosecuting and maintaining Joint Patents. [\*] shall keep [\*] informed of the status of the filing and prosecution of Joint Patents or related proceedings (e.g. interferences, oppositions, reexaminations, reissues, revocations or nullifications) in a timely manner, and will take into consideration the advice and recommendations of [\*]. At [\*] request, [\*] will provide [\*] with reasonable assistance, in prosecuting Joint Patents to the extent possible, including providing such data in [\*] Control that is, in [\*] reasonable judgment, helpful to support the prosecution of a Joint Patent.

(e) **Election Not to file and Prosecute Joint Patents** If [\*] elects not to file or to continue to prosecute or maintain a Joint Patent in both Parties' names in any country worldwide, then it shall notify [\*] in writing at least [\*] days before any deadline applicable to the filing, prosecution or maintenance of such Joint Patent, as the case may be, or any other date by which an action must be taken to establish or preserve such Joint Patent in such country or possession. In such case, [\*] shall have the right to pursue the filing or support the continued prosecution or maintenance of such Joint Patent at its sole expense.

(f) **Patent Term Extension for Joint Patents.** [\*] shall be responsible, in both Parties' names, for obtaining patent term extensions wherever available for Joint Patents. [\*] shall provide [\*], at [\*] sole expense, with all relevant information, documentation and assistance in this respect as may reasonably be requested by [\*]. Any such assistance, supply of information and consultation

shall be provided promptly and in a manner that will ensure that all patent term extensions for Joint Patents may be obtained wherever legally permissible, and to the maximum extent available. In the event that any election with respect to obtaining patent term extensions is to be made, [\*] shall have the right to make such elections, and [\*] shall abide by all such elections.

8.5 **Merck Patents and Product Patents.** Merck shall have the sole right, but not the obligation, to file, prosecute and maintain the Merck Patents and the Product Patents. Merck shall bear all costs and expenses of filing, prosecuting and maintaining Merck Patents and Product Patents, and Sutro shall have no particular rights with respect thereto.

8.6 **Cooperation.**

(a) The Parties will at all times fully cooperate with each other in order to reasonably implement the provisions of this Article 8. Such cooperation may include each Party's execution of necessary legal documents, coordinating filing or prosecution of applications to avoid potential issues during prosecution (including novelty, enablement, estoppel and double patenting and execution of amendments), and the assistance of each Party's relevant personnel. The Parties will use reasonable efforts to avoid creating potential issues in prosecution of the patent applications covering or claiming Sutro Patents, Sutro Platform Patents, Merck Patents, or Product Patents via the JIPC.

(b) Notwithstanding anything to the contrary in this Agreement, it is agreed between the parties that Merck shall have the right to make any filing in a country with respect to a Product Patent beyond the date that is four weeks prior to IND filing or application for Regulatory Approval.

8.7 **Common Ownership Under Joint Research Agreements** Notwithstanding anything to the contrary in this Article 8, neither Party will have the right to make an election under 35 U.S.C. 102(c) when exercising its rights under this Article 8 without the prior written consent of the other Party. With respect to any such permitted election, the Parties will coordinate their activities with respect to any submissions, filings or other activities in support thereof. The Parties acknowledge and agree that this Agreement is a "joint research agreement" as defined in 35 U.S.C. 100(h).

8.8 **Enforcement of Patents.**

(a) **Notice.** In the event either Party believes that an infringement, unauthorized use, misappropriation or ownership claim or threatened infringement or other such activity by a Third Party with respect to any CFE Manufacturing Technology, Sutro Technology, Sutro Platform Technology, Merck Technology, Product Technology or Joint Technology occurred or is about to occur (the "Infringement"), or if a Third Party claims that any Sutro Patent, Sutro Platform Patent, Merck Patent, Product Patent or Joint Patent is invalid or unenforceable, all of the above directly related to the subject matter of this Agreement, the Party possessing such Knowledge or belief shall notify the other Party and provide it with details of such infringement or claim that are known to such Party.

(b) **Right to Bring an Action.**

(i) **Sutro Patents, Sutro Platform Patents.** Sutro shall have the first right, but not the obligation, to attempt to resolve any Infringement or claim, including by filing an Infringement suit, defending against such claim or taking other similar action (each, an "Action"), with respect to a Sutro Patent or Sutro Platform Patents. If a proposed compromise or settlement of an Infringement or claim would adversely affect Merck's rights under this Agreement, then Sutro shall

compromise or settle any such Infringement or claim only after obtaining Merck's written consent to settle any such Infringement or claim, which consent shall not unreasonably be withheld. In case Sutro decides not to attempt to resolve any such Infringement or claim that relates to a Competing Product that is directed against a Named Target or Accepted Target, including by filing an Infringement suit, defending against such claim or taking other similar action, Merck shall have the right, but not the obligation to take any action Merck deems appropriate to abandon such Infringement or claim, including by filing an Infringement suit, defending against such claim or taking other similar action in Sutro's name and at Merck's sole expense. In such case, at Merck's request, Sutro shall immediately provide Merck with all relevant documentation (as may be requested by Merck) evidencing that Merck is validly empowered by Sutro to take such an Action. Sutro is obligated to join Merck in such Action if Merck determines that it is necessary to demonstrate "standing to sue". If Merck does not intend to prosecute or defend an Action, Merck shall promptly inform Sutro.

(ii) **Joint Patents.** [\*] shall have the first right, but not the obligation, to attempt to resolve any Action with respect to a Joint Patent. [\*] shall compromise or settle any such Infringement or claim only after obtaining [\*] written consent to settle any such Infringement or claim, which consent shall not unreasonably be withheld. In case [\*] decides not to attempt to resolve any such Infringement or claim, including by filing an Infringement suit, defending against such claim or taking other similar action, [\*] shall have the right, but not the obligation to take any action [\*] deems appropriate to abandon such Infringement or claim, including by filing an Infringement suit, defending against such claim or taking other similar action in [\*] name and at [\*] sole expense. In such case, at [\*] request, [\*] shall immediately provide [\*] with all relevant documentation (as may be requested by [\*]) evidencing that [\*] is validly empowered by [\*] to take such an Action. [\*] is obligated to join [\*] in such Action if [\*] determines that it is necessary to demonstrate "standing to sue". If [\*] does not intend to prosecute or defend an Action, [\*] shall promptly inform [\*].

(iii) **Merck Patents, Product Patents.** Merck shall have the sole right, at its sole expense, but not the obligation, to determine the appropriate course of action to enforce Merck Patents or Product Patents, or otherwise to abate the Infringement thereof, to take (or refrain from taking) appropriate action to enforce the Merck Patents and Product Patents, to control any litigation or other Action and to enter into, or permit, the settlement of any such litigation or other Action with respect to the Merck Patents and Product Patents. Sutro will fully cooperate with Merck, at Merck's expense, in any such Action to enforce the Merck Patents and Product Patents, including being joined as a party to such Action if necessary.

(c) **Costs of an Action.** Subject to the respective indemnity obligations of the Parties set forth in Article 11, the Party taking an Action under Section 8.8 (b) shall pay all costs associated with such Action, other than (subject to Section 8.8(e)) the expenses of the other Party if the other Party elects to join such Action (as provided in the last sentence of this paragraph). Each Party shall have the right to join an Action relating to a Sutro Patent, Sutro Platform Patent or a Joint Patent, at its own expense.

(d) **Settlement.** Neither Party shall settle or otherwise compromise any Action by admitting that any Sutro Patent (as such relates to a Product) or a Sutro Platform Patent or Joint Patent is invalid or unenforceable without the other Party's prior written consent, and, in the case of Sutro, Sutro may not settle or otherwise compromise an Action in a way that adversely affects or would be reasonably expected to adversely affect Merck's rights or benefits hereunder, without Merck's prior written consent.

(e) **Reasonable Assistance.** The Party not enforcing or defending Sutro Patents, Product Patents, Sutro Platform Patents or Joint Patents, as applicable, shall provide reasonable assistance to the other Party, including providing access to relevant documents and other evidence and making its employees available, subject to the other Party's reimbursement of any reasonable Out-of-Pocket Expenses incurred on an on-going basis by the non-enforcing or non-defending Party in providing such assistance.

(f) **Distribution of Amounts Recovered.** Any amounts recovered by the Party taking an Action pursuant to Section 8.8(b), whether by settlement or judgment, shall be allocated in the following order: (i) to reimburse the Party taking such Action for any costs incurred; (ii) to reimburse the Party not taking such Action for its costs incurred in such Action, if it joins such Action; and (iii) the remaining amount of such recovery shall be allocated as follows: (A) if Sutro was the Party taking the Action, then [\*] of the remainder will be payable to Merck and Sutro will retain [\*], and (B) if Merck was the Party taking the Action, then the remainder will be allocated to Merck and deemed to be Net Sales for the Calendar Quarter in which the amount is paid and Merck shall pay to Sutro a royalty on such remaining amount based on the royalty rates set forth in Section 7.3(a).

8.9

**Third Party Actions Claiming Infringement**

(a) **Notice.** If a Party becomes aware of any Third Party Action, such Party shall promptly notify the other Party of all details regarding such claim or action that is reasonably available to such Party.

(b) **Right to Defend.** Merck shall have the first right, at its sole expense, but not the obligation, to defend a Third Party Action described in Section 8.9(a) and to compromise or settle such Third Party Action. If Merck declines or fails to assert its intention to defend such Third Party Action within sixty (60) days after sending (in the event that Merck is the notifying Party) or receipt (in the event that Sutro is the notifying Party) of notice under Section 8.9(a), then Sutro shall have the right to defend such Third Party Action. The Party defending such Third Party Action shall have the sole and exclusive right to select counsel for such Third Party Action.

(c) **Consultation.** The Party defending a Third Party Action pursuant to Section 8.9(b) shall be the "Controlling Party." The Controlling Party shall consult with the non-Controlling Party on all material aspects of the defense. The non-Controlling Party shall have a reasonable opportunity for meaningful participation in decision-making and formulation of defense strategy. The Parties shall reasonably cooperate with each other in all such actions or proceedings. The non-Controlling Party will be entitled to be represented by independent counsel of its own choice at its own expense.

(d) **Appeal.** In the event that a judgment in a Third Party Action is entered against the Controlling Party and an appeal is available, the Controlling Party shall have the first right, but not the obligation, to file such appeal. In the event the Controlling Party does not desire to file such an appeal, it will promptly, in a reasonable time period (i.e., with sufficient time for the non-Controlling Party to take whatever action may be necessary) prior to the date on which such right to appeal will lapse or otherwise diminish, permit the non-Controlling Party to pursue such appeal at such non-Controlling Party's own cost and expense. If Law requires the other Party's involvement in an appeal, the other Party shall be a nominal Party of the appeal and shall provide reasonable cooperation to such Party at such Party's expense.

(e) **Costs of an Action.** The Controlling Party shall pay all costs associated with such Third Party Action other than the expenses of the other Party if the other Party elects to join such Third Party Action (as provided in the last sentence of this paragraph). Each Party shall have the right to join a Third Party Action defended by the other Party, at its own expense.

(f) **No Settlement Without Consent.** Neither Party shall settle or otherwise compromise any Third Party Action by admitting that any Sutro Parent, Sutro Platform Patents, Merck Patent, Product Patent or Joint Patent is invalid or unenforceable without the other Party's prior written consent, and, in the case of Sutro, Sutro may not settle or otherwise compromise a Third Party Action in a way that adversely affects or would be reasonably expected to adversely affect Merck's rights and benefits hereunder, without Merck's prior written consent.

**ARTICLE 9  
CONFIDENTIALITY**

9.1 **Confidentiality Obligations.** Each Party agrees that, for the Term and for [\*] ([\*]) years thereafter, such Party shall, and shall ensure that its Representatives hold in confidence all Confidential Information disclosed to it by the other Party pursuant to this Agreement, unless such information:

- (i) is or becomes generally available to the public other than as a result of disclosure by the recipient;
- (ii) is already known by or in the possession of the recipient at the time of disclosure by the disclosing Party;
- (iii) is independently developed by recipient without use of or reference to the disclosing Party's Confidential Information; or
- (iv) is obtained by recipient from a Third Party that has not breached any obligations of confidentiality.

The recipient shall not disclose any of the Confidential Information, except to Representatives of the recipient who need to know the Confidential Information for the purpose of performing the recipient's obligations, or exercising its rights, under this Agreement and who are bound by obligations of non-use and non-disclosure substantially similar to those set forth herein. The recipient shall be responsible for any disclosure or use of the Confidential Information by such Representatives. The recipient shall protect Confidential Information using not less than the same care with which it treats its own confidential information, but at all times shall use at least reasonable care. Each Party shall: (a) implement and maintain appropriate security measures to prevent unauthorized access to, or disclosure of, the other Party's Confidential Information; (b) promptly notify the other Party of any unauthorized access or disclosure of such other Party's Confidential Information; and (c) cooperate with such other Party in the investigation and remediation of any such unauthorized access or disclosure.

9.2 **Use.** Each Party shall not use the Confidential Information of the other Party for any purpose other than for the purpose of performing its obligations, or exercising its rights, under this Agreement, including for purposes of:

- (i) filing or prosecuting patent applications, subject to the terms of Section 8.2 and subject to the approval of the JIPC;



- (ii) prosecuting or defending litigation;
- (iii) conducting pre-clinical studies or clinical trials pursuant to this Agreement;
- (iv) seeking or maintaining Regulatory Approval of the Product;
- (v) complying with Law, including securities Law and the rules of any securities exchange or market on which a Party's securities are listed or traded; or
- (vi) Merck may, in furtherance of its rights under this Agreement, disclose Confidential Information of Sutro to any Third Party, provided that such Third Party is bound by obligations of confidentiality at least as stringent as the ones herein.

In making any disclosures set forth in clauses (i) through (vi) above, the disclosing Party shall, where reasonably practicable, give such advance notice to the other Party of such disclosure requirement as is reasonable under the circumstances and will use its reasonable efforts to cooperate with the other Party in order to secure confidential treatment of such Confidential Information required to be disclosed. In addition, in connection with any permitted filing by either Party of this Agreement with any Governmental Body the filing Party shall endeavor to obtain confidential treatment of economic, trade secret information and such other information as may be requested by the other Party, and shall provide the other Party with the proposed confidential treatment request with reasonable time for such other Party to provide comments, and shall include in such confidential treatment request all reasonable comments of the other Party.

- 9.3 **Required Disclosure.** The recipient may disclose the Confidential Information to the extent required by Law or court order; provided, however, that the recipient promptly provides to the disclosing party prior written notice of such disclosure and provides reasonable assistance in obtaining an order or other remedy protecting the Confidential Information from public disclosure.
- 9.4 **Publications.** Sutro shall not publish any information relating to the Product without the prior written consent of Merck (which consent may be withheld or given in Merck's sole discretion), unless such information has already been publicly disclosed either prior to the Effective Date or after the Effective Date through no fault of Sutro or otherwise not in violation of this Agreement. Merck shall have the right to make such publications as it chooses, in its sole discretion, without the approval of Sutro. Sutro shall submit to Merck for Merck's written approval (which approval be granted or denied in Merck's sole discretion) any publication or presentation (including in any seminars, symposia or otherwise) of information related directly or indirectly to the Product for review and approval at least ninety (90) days prior to submission for the proposed date of publication or presentation.
- 9.5 **Press Releases and Disclosure.**
- (a) **Initial Press Release.** The proposed public announcements by Sutro and by Merck of the execution of this Agreement is set forth on Schedule 9.5(a) hereto.
  - (b) **Subsequent Public Disclosures by Sutro.** Sutro may not make any subsequent press release or public announcements regarding this Agreement or any matter covered by this Agreement, including the Development or Commercialization of Products, without the prior written consent of Merck. In the event that Sutro believes it is required to issue a press release or make another public announcement to comply with Law as a publicly-traded company and Merck

does not believe such public announcement is so required, Sutro may only issue such press release if (i) it obtains an opinion of legal counsel, from a reputable law firm approved by Merck, that it is required to make such disclosure to comply with Law and (ii) after receiving such opinion, provides the text of such planned disclosure to Merck no less than seven (7) days prior to disclosure, and has incorporated all reasonable comments of Merck regarding such disclosure. Notwithstanding anything to the contrary, either Party may disclose this Agreement to existing or potential acquirers or merger candidates; existing or potential collaborators or sublicensees (to the extent contemplated hereunder); attorneys; consultants; investment bankers; existing or potential investors, venture capital firms or other financial institutions or investors for purposes of obtaining financing; each of whom prior to disclosure must be bound by obligations of non-use and non-disclosure substantially similar to those set forth herein and further *provided*, that such disclosures will be limited to the terms of this Agreement and presented in a manner that does not divulge or otherwise make available any of the following if not already publicly known: (a) the identity of any Target, (b) the identity of any Product, (c) details of any Project Plan, or (d) details of any Results.

(c) **Public Disclosures by Merck.** Merck shall have the right to make such press releases as it chooses, in its sole discretion, without the approval of Sutro regarding Merck's activities under this Agreement solely with respect to a Product and only following Merck's payment of the first milestone as set forth in Section 7.2 with respect to such Product.

#### **ARTICLE 10 REPRESENTATIONS, WARRANTIES AND COVENANTS**

10.1 **Representations and Warranties.** Each Party represents and warrants to the other Party that, as of the Effective Date:

(a) such Party is duly organized and validly existing under the Laws of the jurisdiction of its incorporation or organization;

(b) such Party has taken all action necessary to authorize the execution and delivery of this Agreement and the performance of its obligations under this Agreement;

(c) this Agreement is a legal and valid obligation of such Party, binding upon such Party and enforceable against such Party in accordance with the terms of this Agreement, except as enforcement may be limited by applicable bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general equitable principles. The execution, delivery and performance of this Agreement by such Party does not conflict with, breach or create in any Third Party the right to accelerate, terminate or modify any agreement or instrument to which such Party is a Party or by which such Party is bound, and does not violate any Law of any Governmental Body having authority over such Party; and

(d) such Party has all right, power and authority to enter into this Agreement, to perform its obligations under this Agreement.

10.2 **Additional Representations and Warranties of Sutro.** Sutro represents and warrants to Merck that, as of the Effective Date:

(a) no consent by any Third Party or Governmental Body is required with respect to the execution and delivery of this Agreement by Sutro or the consummation by Sutro of the transactions contemplated hereby;

(b) to Sutro's Knowledge, no claims have been asserted or threatened by any Person, nor are there any valid grounds for any claim of any such kind (a) challenging the validity, effectiveness, or ownership of Sutro Technology, Sutro Platform Technology, Stanford Technology or CFE Manufacturing Technology, and/or (b) to the effect that the use, reproduction, modification, manufacturing, distribution, licensing, sublicensing, sale or any other exercise of rights in any of Sutro Technology, Sutro Platform Technology, Stanford Technology or CFE Manufacturing Technology infringes or will infringe on any intellectual property right of any Person.

(c) to the Knowledge of Sutro, there is no unauthorized use, infringement or misappropriation of any of Sutro Technology, Sutro Platform Technology, CFE Technology or Stanford Technology by any employee or former employee of Sutro, or any other Third Party;

(d) to the Knowledge of Sutro, the Sutro Patents, the Sutro Platform Patents, CFE Manufacturing Patents or Stanford Patents are subsisting and are not the subject of any litigation procedure, discovery process, interference, reissue, reexamination, opposition, appeal proceedings or any other legal dispute;

(e) the Sutro Patents, the Sutro Platform Patents, the CFE Manufacturing Patents and the Stanford Patents constitute all Patent Rights owned or Controlled by Sutro as of the Effective Date that are directly related to, or are necessary or useful for, the research, Development, manufacture, use or Commercialization of the Product;

(f) the Sutro Know-How, the Sutro Platform Know-How, the CFE Know-How and the Stanford Know-How constitutes all Know-How owned or Controlled by Sutro as of the Effective Date that is directly related to, or are necessary or useful for, the research, Development, manufacture, use or Commercialization of the Product;

(g) Sutro has not developed, subcontracted or licensed to a Third Party the right to develop a Competing Product with respect to the Named Targets;

(h) to the Knowledge of Sutro, no Third Party has filed, pursued or maintained or threatened in writing to file, pursue or maintain any claim, lawsuit, charge, complaint or other action alleging that any Sutro Patent, Sutro Platform Patent, CFE Patent or Stanford Patent is invalid or unenforceable;

(i) it has the full right to provide the Sutro Materials to Merck and to transfer to Merck all right, title and interest in and to the Sutro Material to be provided to Merck pursuant to this Agreement, and to Sutro's Knowledge, neither Merck's use of the Sutro Material as contemplated by this Agreement, nor such transfer, will infringe the intellectual property rights of any Third Party;

(j) all Representatives of Sutro who have performed any activities on its behalf in connection with research regarding ADCs developed under this Agreement or Product have assigned to Sutro the whole of their rights in any intellectual property made, discovered or developed by them as a result of such research, and no Third Party has any rights to any such intellectual property;

(k) Sutro has all right, title and interest in and to the Sutro Technology, the Sutro Platform Technology and Sutro's interest in the CFE Manufacturing Technology; and Sutro Technology, the Sutro Platform Technology and Sutro's interest in the CFE Manufacturing Technology is free and clear of any liens, charges, encumbrances or rights of others to possession or use;

(l) Sutro has the right, power and authority to grant to Merck the rights granted to Merck hereunder with respect to the Stanford In-License. In particular, the grant of such sublicense requires no consent, waiver or other action by any party to the Stanford In-License and the rights and obligations of Merck set forth in this Agreement do not contravene nor are they inconsistent with or in conflict with the terms of the Stanford In-License;

(m) The Stanford In-License constitutes the only agreement with a Third Party pursuant to which Sutro has licensed, or otherwise obtained rights, with respect to the ADCs and Product. Sutro has provided to Merck an accurate, true and complete copy of the Stanford In-License, as amended to date and the Stanford In-License is in full force and effect and Sutro is not in breach or default in the performance of its obligations under the Stanford In-License. Sutro has not received any notice from Stanford of any breach, default or non-compliance of Sutro under the terms of any of the Stanford In-License. There have been no amendments or other modification to the Stanford In-License, except as have been disclosed to Merck in writing;

(n) to the Knowledge of Sutro, all tangible information and data provided by or on behalf of Sutro to Merck on or before the Effective Date in contemplation of this Agreement was and is true, accurate and complete in all material respects, and Sutro has not failed to disclose, or cause to be disclosed, any information or data that would cause the information and data that has been disclosed to be misleading in any material respect;

(o) Sutro (and its Affiliates) has not employed or otherwise used in any capacity, and will not employ or otherwise use in any capacity, the services of any Person debarred under United States law, including under Section 21 USC 335a or any foreign equivalent thereof, with respect to the ADCs or Product;

10.3 **Sutro Covenants.** Sutro covenants to Merck that:

(a) Sutro shall fulfill all of its obligations, including but not limited to its payment obligations, under the Stanford In-License or any Third Party License Agreement; and

(b) Sutro shall not amend or waive, or take any action or omit to taking any action that would alter, any of Sutro's rights under the Stanford In-License or any Third Party License Agreement in any manner that adversely affects, or would reasonably be expected to adversely affect, Merck's rights and benefits under this Agreement. Sutro shall promptly notify Merck of any default under, termination or amendment of, the Stanford In-License, the Scripps In-License or relevant Third Party License Agreement.

**ARTICLE 11**  
**INDEMNIFICATION AND INSURANCE**

- 11.1 **Indemnification by Merck.** Merck shall indemnify, defend and hold Sutro and its Affiliates and each of their respective employees, officers, directors and agents (the "Sutro Indemnitees") harmless from and against any and all liability, damage, loss, cost or expense (including reasonable attorneys' fees) to the extent arising out of Third Party claims or suits related to: (a) Merck's negligence or willful misconduct; (b) Merck's performance of its obligations or exercising its rights under this Agreement; or (c) breach by Merck of its representations or warranties set forth in Article 10; provided, however, that Merck's obligations pursuant to this Section 11.1 shall not apply (i) to the extent such claims or suits result from the negligence or willful misconduct of any of the Sutro Indemnitees, or (ii) with respect to claims or suits arising out of breach by Sutro of its representations, warranties or covenants set forth in Article 10.
- 11.2 **Indemnification by Sutro.** Sutro shall indemnify, defend and hold Merck and its Affiliates and each of their respective agents, employees, officers and directors ("Merck Indemnitees") harmless from and against any and all liability, damage, loss, cost or expense (including reasonable attorney's fees) to the extent arising out of Third Party claims or suits (including Third Party Actions) related to: (a) Sutro's negligence or willful misconduct; (b) Sutro's performance of its obligations under this Agreement; or (c) breach by Sutro of its representations, warranties or covenants set forth in Article 10; provided, however, that Sutro's obligations pursuant to this Section 11.2 shall not apply (i) to the extent that such claims or suits result from the negligence or willful misconduct of any of Merck Indemnitees or (ii) with respect to claims or suits arising out of a breach by Merck of its representations or warranties set forth in Article 10.
- 11.3 **No Consequential Damages.** EXCEPT WITH RESPECT TO EACH PARTY'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 11.1 OR SECTION 11.2, AS APPLICABLE, IN NO EVENT SHALL EITHER PARTY OR ANY OF ITS AFFILIATES BE LIABLE TO THE OTHER PARTY OR ANY OF ITS AFFILIATES FOR SPECIAL, INDIRECT, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING LOSS OF PROFITS, WHETHER IN CONTRACT, WARRANTY, TORT, NEGLIGENCE, STRICT LIABILITY OR OTHERWISE ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREIN OR ANY BREACH HEREOF. NOTWITHSTANDING THE FOREGOING, NOTHING IN THIS AGREEMENT SHALL LIMIT EITHER PARTY FROM SEEKING OR OBTAINING ANY REMEDY AVAILABLE UNDER LAW FOR ANY BREACH OF BY THE OTHER PARTY OF ITS CONFIDENTIALITY AND NON-USE OBLIGATIONS UNDER ARTICLE 9 OR ANY BREACH BY SUTRO OF ITS EXCLUSIVITY OBLIGATIONS UNDER SECTION 2.10.
- 11.4 **Notification of Claims; Conditions to Indemnification Obligations.** As a condition to a Party's right to receive indemnification under this Article 11, it shall: (a) promptly notify the other Party as soon as it becomes aware of a claim or suit for which indemnification may be sought pursuant hereto; (b) cooperate, and cause the individual indemnitees to cooperate, with the indemnifying Party in the defense, settlement or compromise of such claim or suit; and (c) permit the indemnifying Party to control the defense, settlement or compromise of such claim or suit, including the right to select defense counsel. In no event, however, may the indemnifying Party compromise or settle any claim or suit in a manner which admits fault or negligence on the part of the indemnified Party or any indemnitee without the prior written consent of the indemnified Party. Each Party shall reasonably cooperate with the other Party and its counsel in the course of the defense of any such suit, claim or demand, such cooperation to include without limitation using reasonable efforts to provide or make available documents, information and witnesses. The indemnifying Party shall have no liability under this Article 11 with respect to claims or suits settled or compromised without its prior written consent.

- 11.5 **Insurance.** During the Term, each Party shall obtain and maintain, at its sole cost and expense, insurance (including any self-insured arrangements) in types and amounts, that are reasonable and customary in the pharmaceutical and biotechnology industry for companies engaged in comparable activities. It is understood and agreed that this insurance shall not be construed to limit either Party's liability with respect to its indemnification obligations hereunder. Each Party will, except to the extent self insured, provide to the other Party upon request a certificate evidencing the insurance such Party is required to obtain and keep in force under this Section 11.5.

## ARTICLE 12 TERM AND TERMINATION

- 12.1 **Term and Expiration.** The term of this Agreement (the "Term") shall commence on the Effective Date and, unless earlier terminated as provided in this Article 12, shall continue in full force and effect, on a country-by-country and Product-by-Product basis until the date on which the Royalty Term in such country with respect to such Product expires, at which time this Agreement shall expire in its entirety with respect to such Product in such country and the terms of Section 12.4(c)(i) shall apply.
- 12.2 **Termination of the Agreement by Merck.**
- (a) **Termination for Convenience.** At any time during the Term, Merck may, at its convenience, terminate this Agreement in its entirety, or on a Product-by-Product or country-by-country basis, immediately upon ninety (90) days prior written notice to Sutro and [\*].
- (b) **Termination for non-Availability of Additional Targets.** If [\*] Additional Targets are not Available Merck may terminate this Agreement with immediate effect.
- 12.3 **Termination upon Material Breach.**
- (a) **Material Breach.** If a Party materially breaches any of its material obligations under this Agreement, the Party not in default may give to the breaching Party a written notice specifying the nature of the default, requiring it to cure such breach, and stating its intention to terminate this Agreement if such breach is not cured within [\*] ([\*]) days. If such breach is not cured within [\*] ([\*]) days after the receipt of such notice, the Party not in default shall be entitled to terminate this Agreement immediately by written notice to the other Party. For clarity, such material obligations may apply to the performance of either: (i) this Agreement in its entirety, in which case this provision shall apply to the entire Agreement; or (ii) a specific Product or Product(s), in which case this provision shall apply only to such affected Product or Product(s).
- (b) **Material Breach Dispute.** Any dispute regarding an alleged material breach of this Agreement shall be resolved in accordance with Article 13 hereof before the affected Party pursues other remedies (including termination). In the event that the Party that has allegedly materially breached this Agreement disputes such breach, and the resulting termination of this Agreement in good faith, then any consequences of termination in Article 12.4 shall only apply from and after such time as such termination has been upheld in a final judgment from which no appeal can be taken, or that is unappealed within the time allowed for appeal or such time as the Party allegedly in material breach is no longer disputing such termination.

(c) In the event that a Party has the right to terminate this Agreement for uncured material breach by the other Party, then such first Party may elect not to terminate this Agreement and shall have the right to pursue the other rights and remedies it may have hereunder or at Law or in equity with respect to any breach of this Agreement and pursue its right to obtain performance of any obligation.

12.4

**Effects of Termination.**

**(a) Survival.**

(i) Notwithstanding the expiration or termination of this Agreement, the following provisions shall survive; Articles 1, 9, 11 and 14; and Sections 7.8, 7.11, 7.12, 8.3, and 12.4. In addition upon expiration of this Agreement, the following provisions shall also survive: 5.6, 6.4, 6.5, 6.6.

(ii) Expiration or termination of this Agreement shall not relieve the Parties of any liability that accrued hereunder prior to the effective date of such termination. In addition, except for the termination events addressed in Section 12.4 (a) (iv) termination of this Agreement shall not 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 nor prejudice either Party's right to obtain performance of any obligation.

(iii) If either Party terminates the Agreement under Section 12.3, such Party shall be entitled, in its sole discretion, to seek and recover all recoveries available to it under this Agreement and applicable Laws as a result of the breaches giving rise to the termination by the other Party pursuant to Section 12.3.

(iv) If Sutro Knowingly breached the exclusivity set forth in Section 2.10 and as a result of such breach a Competing Product directed against the same Named Target or Accepted Target is to be marketed in any country of the Territory, then Merck may elect not to terminate this Agreement and, instead, during the period commencing at the end of a cure period of [\*] ( [\*] ) days following a notice from Merck under Section 12.3(a) and continuing until the end of the last Royalty Term in such country of the Territory in which such Competing Product is marketed, reduce the royalty payments under Section 7.3 for the applicable Product by [\*] percent ( [\*] % ), until such Competing Product is withdrawn from the market in such country. For clarity, the royalty floor set forth in Section 7.3(c) shall in such case not apply. If Merck elects the reduction of payments set forth in this Section 12.4(a)(iv) then this shall be Merck's sole and exclusive remedy for such breach of exclusivity.

(b) **Exclusivity.** Upon any termination of this Agreement with respect to a Product, or the Agreement in its entirety, the exclusivity under Section 2.10 shall no longer apply with respect to the underlying Named Target or Accepted Target.

**(c) Licenses.**

(i) As of the effective date of expiration of the Royalty Term with respect to a given Product and country, the license from Sutro to Merck under Section 4.1 and the license from Sutro to Merck under Section 4.2, shall convert to a fully paid, royalty free, irrevocable, perpetual, non-

exclusive, and sublicensable license under the Sutro Technology, Sutro Platform Technology, the CFE Manufacturing Technology and Sutro's interest in Joint Technology to research, develop, manufacture, have manufactured, use and Commercialize such Product in the Field in such country.

(ii) Upon termination of this Agreement by Merck pursuant to Section 12.2 or Section 12.3(a) or by Sutro pursuant to Section 12.3(a) all licenses granted to Merck under Section 4.1 shall terminate for such Products and countries affected from the termination. Immediately following Merck's notification of termination to Sutro pursuant to Sections 12.2 or 12.3(a), the diligence obligations in Section 5.9 shall no longer apply and Merck shall have the right to wind-down all then on-going Development, manufacturing and/or Commercialization activities.

12.5 **Bankruptcy or Insolvency.**

(a) **Bankruptcy Code.** All rights and licenses granted under or pursuant to this Agreement by Sutro are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, if applicable, licenses of right to "intellectual property" as defined under Section 101 of the U.S. Bankruptcy Code.

(b) **Continuing Rights.** The Parties agree that Merck, as licensee of rights under this Agreement, shall retain and may fully exercise all of its rights and elections under the U.S. Bankruptcy Code. The Parties further agree that, in the event of a Sutro Bankruptcy Event, Merck shall be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property, which, if not already in Merck's possession, shall be promptly delivered to it (a) following any such commencement of a bankruptcy proceeding upon Merck's written request therefor, unless Sutro elects to continue to perform all of its obligations under this Agreement or (b) if not delivered under clause (a), following the rejection of this Agreement by Sutro upon written request therefor by Merck.

(c) **Transfer of CFE Manufacturing Technology.** In the event of a Sutro Bankruptcy Event, upon Merck's written request, Sutro shall transfer the Sutro CFE Manufacturing Technology Controlled by Sutro as of the effective date of the Sutro Bankruptcy Event.

12.6 **Other Remedies.** Termination of this Agreement for any reason shall not release either Party from any liability or obligation that already has accrued prior to such termination. Termination of this Agreement for any reason shall not constitute a waiver or release of, or otherwise be deemed to prejudice or adversely affect or limit, any rights or remedies that otherwise may be available at Law or in equity.

**ARTICLE 13  
DISPUTE RESOLUTION**

13.1 **Disputes.** The Parties recognize that disputes as to certain matters may from time to time arise during the Term which relate to either Party's rights and/or obligations hereunder. It is the objective of the Parties to establish under this Article 13 procedures to facilitate the resolution of disputes arising under this Agreement in an expedient manner by mutual cooperation and without resort to litigation. In the event that the Parties are unable to resolve such dispute through diligent review and deliberation within thirty (30) days from the day that one Party had designated the issue as a dispute in written notice to the other Party, then either Party shall have the right to escalate such matter to the Executive Officers as set forth in Section 13.2.



- 13.2 **Escalation to Executive Officers.** Either Party may, by written notice to the other Party, request that a dispute that remains unresolved for a period of thirty (30) days as set forth in Section 13.1 arising between the Parties in connection with this Agreement, or a dispute relating to material breach, be resolved by the Executive Officers, within fifteen (15) days after referral of such dispute to them. If the Executive Officers cannot resolve such dispute within fifteen (15) days after referral of such dispute to them, then, at any time after such fifteen (15) day period, either Party may proceed to enforce any and all of its rights with respect to such dispute.
- 13.3 **Injunctive Relief.** No provision herein shall be construed as precluding a Party from bringing an action for injunctive relief or other equitable relief prior to the initiation or completion of the above procedure.

**ARTICLE 14**  
**MISCELLANEOUS PROVISIONS**

- 14.1 **Relationship of the Parties.** Nothing in this Agreement is intended or shall be deemed, for financial, tax, legal or other purposes, to constitute a partnership, agency, joint venture or employer-employee relationship between the Parties.
- 14.2 **Assignment.**
- (a) **Assignment Generally.** Except as expressly provided herein, neither this Agreement nor any interest hereunder shall be assignable, nor any other obligation delegable, by a Party without the prior written consent of the other Party (not to be unreasonably withheld or delayed). [\*].
- (b) [\*].
- (c) **Continuing Obligations.** No assignment under this Section 14.2 shall relieve the assigning Party of any of its responsibilities or obligations hereunder and, as a condition of such assignment, the assignee shall agree in writing to be bound by all obligations of the assigning Party hereunder. This Agreement shall be binding upon the successors and permitted assigns of the Parties.
- (d) **Void Assignments.** Any assignment not in accordance with this Section 14.2 shall be void.
- 14.3 **Performance and Exercise by Affiliates.** Merck shall have the right to have any of its obligations hereunder performed, or its rights hereunder exercised by any of its Affiliates and the performance of such obligations by any such Affiliate shall be deemed to be performance by Merck; provided, however, that Merck shall be responsible for ensuring the performance of its obligations under this Agreement and that any failure of any Affiliate performing obligations of Merck hereunder shall be deemed to be a failure by Merck to perform such obligations. For clarity, the foregoing means that Merck may designate an Affiliate to perform its obligations hereunder or to be the recipient of Sutro's performance obligations hereunder.
- 14.4 **Further Actions.** Each Party agrees to execute, acknowledge and deliver such further instruments and to do all such other acts as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

- 14.5 **Accounting Procedures.** Each Party shall calculate all amounts, and perform other accounting procedures required, under this Agreement and according to applicable accounting standards.
- 14.6 **Force Majeure.** Neither Party shall be liable to the other Party or be deemed to have breached or defaulted under this Agreement for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by or results from acts of God, earthquake, riot, civil commotion, terrorism, war, strikes or other labor disputes, fire, flood, failure or delay of transportation, omissions or delays in acting by a governmental authority, acts of a government or an agency thereof or judicial orders or decrees or restrictions or any other reason which is beyond the control of the respective Party. The Party affected by force majeure shall provide the other Party with full particulars thereof as soon as it becomes aware of the same (including its best estimate of the likely extent and duration of the interference with its activities), and will use Commercially Reasonable Efforts to overcome the difficulties created thereby and to resume performance of its obligations hereunder as soon as practicable.
- 14.7 **No Trademark Rights.** No right, express or implied, is granted by this Agreement to a Party to use in any manner the name or any other trade name or trademark of the other Party in connection with the performance of this Agreement or otherwise.
- 14.8 **Entire Agreement of the Parties; Amendments** This Agreement and the Schedules hereto constitute and contain the entire understanding and agreement of the Parties respecting the subject matter hereof and cancel and supersede any and all prior negotiations, correspondence, understandings and agreements between the Parties, whether oral or written, regarding such subject matter. No waiver, modification or amendment of any provision of this Agreement shall be valid or effective unless made in a writing referencing this Agreement and signed by a duly authorized officer of each Party.
- 14.9 **Captions.** The captions to this Agreement are for convenience only, and are to be of no force or effect in construing or interpreting any of the provisions of this Agreement.
- 14.10 **Governing Law.** This Agreement shall be governed by and interpreted in accordance with the laws of England and Wales, excluding application of any conflict of laws principles that would require application of the Law of a jurisdiction outside of England and Wales, and will be subject to the exclusive jurisdiction of the competent courts of England and Wales.
- 14.11 **Notices and Deliveries.** Any notice, request, approval or consent required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been sufficiently given if delivered in person, transmitted by facsimile (receipt verified) or by express courier service (signature required) to the Party to which it is directed at its address or facsimile number shown below or such other address or facsimile number as such Party shall have last given by notice to the other Party.

If to Merck, addressed to:

Merck KGaA  
Frankfurter Strasse 250  
64293 Darmstadt  
Germany  
Attn: [\*]  
Facsimile: +[\*]

In case of legal notices with a copy to:

Merck KGaA  
Frankfurter Strasse 250  
64293 Darmstadt  
Germany  
Attn: [\*]  
Facsimile: +[\*]

If to Sutro, addressed to:  
Sutro Bipharma Inc.  
310 Utah Ave, Suite 150  
South San Francisco, CA 94080  
USA  
Telephone : +[\*]  
Telecopier : +[\*]

- 14.12 **Language.** The official language of this Agreement and between the Parties for all correspondence shall be the English language.
- 14.13 **Waiver.** A waiver by either Party of any of the terms and conditions of this Agreement in any instance shall not be deemed or construed to be a waiver of such term or condition for the future, or of any other term or condition hereof. All rights, remedies, undertakings, obligations and agreements contained in this Agreement shall be cumulative and none of them shall be in limitation of any other remedy, right, undertaking, obligation or agreement of either Party.
- 14.14 **Severability.** When possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under Law, but if any provision of this Agreement is held to be prohibited by or invalid under Law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement. The Parties shall make a good faith effort to replace the invalid or unenforceable provision with a valid one which in its economic effect is most consistent with the invalid or unenforceable provision.
- 14.15 **No Implied License.** No right or license is granted to the other Party hereunder by implication, estoppel, or otherwise to any know-how, patent or other intellectual property right owned or controlled by a Party or its Affiliates.
- 14.16 **Interpretation.** The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” All references herein to Articles, Sections, and Schedules shall be deemed references to Articles and Sections of, and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with IFRS or GAAP, as applicable, as in effect from time to time. Unless the context otherwise requires, countries shall include territories.
- 14.17 **Counterparts.** This Agreement may be executed in counterparts, each of which will be deemed an original, and all of which together will be deemed to be one and the same instrument. A facsimile or a portable document format (PDF) copy of this Agreement, including the signature pages, will be deemed an original.

[SIGNATURE PAGE FOLLOWS]

---

IN WITNESS WHEREOF, duly authorized representations of the parties have executed this Agreement as of the date first above written.

**SUTRO BIOPHARMA INC.**

Signature: /s/ William J. Newell

Printed Name: William J. Newell

Title: CEO

Signature: /s/ Jeremy Bender

Printed Name: Jeremy Bender

Title: Chief Business Officer

**MERCK KGAA**

Signature: /s/ ppa. SJ Herbert

Printed Name: ppa. Susan Herbert

Title: Executive Vice President Global Business  
Development & Alliance Management

Signature: /s/ i.V. Simone Heitz

Printed Name: i.V. Dr. Simone Heitz

Title: Associate General Counsel

**[Signature Page to License Agreement]**



**Exhibit B**  
**Invoice Example**

Supplier name and address, contact details etc.

Invoice-No. 12345  
Invoice Date: 01.01.2010

Address of the respective Merck Affiliate e.g.

Merck KGaA

[\*]

Purchase Order number: 4500XXXXXX  
Merck Study/Project No.: [\*]  
Merck Contact Person: Dr. Example  
VAT-Registration: XXZZYYZZXX

Currency: EUR

Positions have to be referred to as stated in the Purchase Order, especially the item/position numbers! See example below:

Item/ Position	Quantity	Description of Unit	Unit Price	Net sum
010		Months of Project Management (Feb, March, April)	[*]	[*]
	3			
020	1	50% of sites initiated	[*]	[*]
0nn				
<b>Sum</b>				
<b>Total</b>				[*]

Separate invoice for direct fees and indirect costs = pass through costs

Item/ Position	Quantity	Description of Unit	Unit Price	Net sum
050	1	Pass through costs e.g. travel expenses	n.a.	[*]
060	1	Pass through costs investigator meeting Paris	n.a.	[*]
Sum				
Total				[*]

Bank details of the supplier

**\*Confidential Treatment Requested.**

---

**Schedule 1.1  
Accepted Targets**

#  
3  
4  
5  
6

<b>Target</b>	<b>Definition</b>	<b>OMIM</b>	<b>SwissProt</b>
---------------	-------------------	-------------	------------------

**Schedule 1.11**  
**CFE MANUFACTURING PATENTS**  
**PREPARED SEPTEMBER 5, 2014**

**PATENTS AND PATENT APPLICATIONS LICENSED FROM STANFORD**

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-459	US	ISSUED	12/089,596	US 2009-0029414 A1	8,183,010	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459AU	AU	ISSUED	2006308854		2006308854	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459CA	CA	PENDING	2626061			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459DIV	US	ISSUED	13/468,907		8,492,115	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459EP	EP	PUBLISHED	6844245.8	1943338		Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459IN	IN	PENDING	3144/DELNP/2008			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459JP	JP	ISSUED	2008-538111	2009-513146	5383197	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459PRV	US	EXPIRED	60/732,437			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459WO	WO	NAT PHASE	US2006/042583	WO 2007/053655		Cell-Free Synthesis of Membrane Bound Polypeptides





Schedule 1.64  
Named Targets

#	Target	Definition	OMIM	SwissProt
[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]

\*Confidential Treatment Requested.



**Schedule 1.92**  
**Stanford Patents**  
**Prepared September 5, 2014**  
**PATENTS AND PATENT APPLICATIONS LICENSED FROM STANFORD**

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-117	US	ISSUED	09/270,814		6,168,931	Enhanced In Vitro Synthesis of Biological Macromolecules Using a Novel ATP Regeneration System
STAN-117CA	CA	ISSUED	2365668		2,365,668	In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117CON	S	SSUED	9/948,815	US-2002-0081660-A1	,994,986	In Vitro Synthesis of Polypeptides by Optimizing Amino Acid Metabolism
STAN-117EP	P	UBLISHED	23078			In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117JP	P	SSUED	000-605770	2002-538832	707237	In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117JPDIV	P	UBLISHED	010-259783	2011-079845		In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117WO	O	AT PHASE	S00/07095	WO00/5353		In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-152	US	ISSUED	09/621,339		6,337,191	In Vitro Protein Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152CA	CA	ABANDONED	2428693			In Vitro Protein Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152EP	EP	ABANDONED	980413.9			In Vitro Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152JP	JP	ABANDONED	2002-543505			In Vitro Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152PRV	US	EXPIRED	60/145,438			In Vitro Synthesis Using Glucose Or Glycolytic Intermediates as an Energy Source
STAN-152WO	WO	NAT PHASE	US00/31449			In Vitro Synthesis Using Glycolytic Intermediates as an Energy Source

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-205	US	ISSUED	09/948,052	US-2002-0058303-A1	6,548,276	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205AU	AU	ISSUED	2001288931		2001288931	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205CA	CA	ISSUED	2419996		2419996	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205CIP	US	ISSUED	10/404,599	US-2004-0038332-A1	7,041,479	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205EP	EP	ISSUED	1968701.1	1315826	1315826	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205JP	JP	ISSUED	2002-525824	2004-508050	4889185	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205PRV	US	EXPIRED	60/230,381			Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205WO	WO	NAT PHASE	US01/28159	WO 02/20818		Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-273	US	ISSUED	10/643,683	US 2004-0209321 A1	7,338,789	Methods of In Vitro Protein Synthesis
STAN-273AU	AU	ISSUED	2003259912		2003259912	Improved Methods of In Vitro Protein Synthesis
STAN-273CA	CA	ISSUED	2496437		2496437	Improved Methods of In Vitro Protein Synthesis
STAN-273DIV	US	ISSUED	11/971,130	US 2008-0138857 A1	8,357,529	Methods of In Vitro Protein Synthesis
STAN-273EP	EP	ISSUED	3788625.6	1539948	1539948	Improved Methods of In Vitro Protein Synthesis
STAN-273EPDIV	EP	ABANDONED	9009204	2108697		Improved Methods of In Vitro Protein Synthesis
STAN-273JP	JP	ISSUED	2004-529558	2005-536206	5259046	Improved Methods of In Vitro Protein Synthesis
STAN-273JPDIV	JP	ABANDONED	2010-153515	2010-279368		Improved Methods of In Vitro Protein Synthesis
STAN-273PRV	US	EXPIRED	60/404,591			Methods of In Vitro Protein Synthesis
STAN-273WO	WO	NAT PHASE	US03/25888	WO 2004/016778		Improved Methods of In Vitro Protein Synthesis

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-309	US	ISSUED	10/888,145	US-2005-0054032-A1	7,341,852	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309AU	AU	ISSUED	2004259433		2004259433	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309EP	EP	ISSUED	4778237	1649025	1649025	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309JP	JP	ISSUED	2006-521119	2006-527997	4751829	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309PRV	US	EXPIRED	60/488,282			Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309WO	WO	NAT PHASE	US2004/022632	WO 2004/022632		Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-337	US	PUBLISHED	10/579,711	US 2007-0154983 A1		Improved Methods of In Vitro Protein Synthesis
STAN-337AU	AU	ISSUED	2004293798		2004293798	Improved Methods of In Vitro Protein Synthesis
STAN-337CN	CN	PUBLISHED	2.0048E+11	101014716		Improved Methods of In Vitro Protein Synthesis
STAN-337EP	EP	PUBLISHED	4811533.1	1685240		Improved Methods of In Vitro Protein Synthesis
STAN-337IN	IN	ISSUED	1741/CHENP/2006		239129	A Method for Synthesis of Polynucleotides and/or Polypeptides
STAN-337JP	JP	ISSUED	2006-541404	2007-521023	5074768	Improved Methods of In Vitro Protein Synthesis
STAN-337KR	KR	ISSUED	2006-7010314		10-1232656	Improved Methods of In Vitro Protein Synthesis
TAN-337NZ	Z	SSUED	546961	Journal No. 1559	546961	Improved Methods of In Vitro Protein Synthesis
TAN-337PRV	S	XPIRED	60/524,374			Improved Methods of In Vitro Protein Synthesis
TAN-337WO	O	AT PHASE	US2004/038830	WO 2005/052117		Improved Methods of In Vitro Protein Synthesis

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-353	US	ISSUED	10/599,310	US 2009-0042244 A1	8,298,759	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353AU	AU	ISSUED	2005230916		2005230916	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353CA	CA	PENDING	2560504			Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353CN	CN	ABANDONED	2.0058E+11			Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353EA	EA	ISSUED	200601748		10837	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353EP	EP	ISSUED	5733219.9	1730313	1730313	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353ID	ID	ISSUED	W00 2006 02538	047.0258A	P0029416	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353JP	JP	ISSUED	2007-505063	2007-530042	4829215	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353KR	KR	ISSUED	10-2006-7019493		10-1229849	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353MX	MX	ISSUED	PA/a/2006/010918		280082	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353NO	NO	ISSUED	20064735		331586	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353NZ	NZ	ISSUED	549523	1564	549523	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353PRV	US	EXPIRED	60/556,736			Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353SG	SG	ISSUED	200606158-4		125458	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353WO	WO	NAT PHASE	US2005/009342	WO 2005/098048		Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-405	US	ISSUED	11/447,367	US 2007-0004001 A1	7,312,049	Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405AU	AU	ISSUED	2006259543		2006259543	Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405CA	CA	PENDING	2611908			Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405EP	EP	PUBLISHED	6784839	1893768		Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405PRV	US	EXPIRED	60/690,571			Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405WO	WO	NAT PHASE	US2006/023032	WO 2006/138322		Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-459	US	ISSUED	12/089,596	US 2009-0029414 A1	8,183,010	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459AU	AU	ISSUED	2006308854		2006308854	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459CA	CA	PENDING	2626061			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459DIV	US	ISSUED	13/468,907		8,492,115	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459EP	EP	PUBLISHED	6844245.8	1943338		Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459IN	IN	PENDING	3144/DELNP/2008			Cell-Free Synthesis of Membrane Bound Polypeptides



<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-459JP	JP	ISSUED	2008-538111	2009-513146	5383197	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459PRV	US	EXPIRED	60/732,437			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459WO	WO	NAT PHASE	US2006/042583	WO 2007/053655		Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-507	US	ISSUED	12/305,617	US 2010- 0093024 A1	8,715,958	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507AU	AU	ISSUED	2007325952		2007325952	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507CA	CA	PENDING	2657811			Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507CN	CN	ISSUED	2.0078E+11		ZL200780024345.9	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507EP	EP	ISSUED	7870711.4	2035554	2035554	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507IN	IN	ISSUED	2784/MUMNP/2008		258411	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507JP	JP	PUBLISHED	2009- 518303	2009-542214		Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507PRV	US	EXPIRED	60/817,915			Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507WO	WO	NAT PHASE	US2007/015170	WO 2008/066583		Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-534	US	ISSUED	12/016,763	US 2008- 0248521 A1	7,871,794	Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534AU	AU	ABANDONED	2008205479			Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534CA	CA	ABANDONED	2673765			Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds

---

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-534EP	EP	ABANDONED	8724626	2109682		Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534JP	JP	ABANDONED	2009-546434	2010-516251		Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534PRV	US	EXPIRED	60/881,251			Enhanced in Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534WO	WO	NAT PHASE	US2008/000699	WO 2008/088884		Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds

**\*Confidential Treatment Requested.**

**Schedule 1.105**  
**Sutro Platform Patents**  
**Prepared September 5, 2014**  
**PATENTS AND PATENT APPLICATIONS LICENSED FROM STANFORD**

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-117	US	ISSUED	09/270,814		6,168,931	Enhanced In Vitro Synthesis of Biological Macromolecules Using a Novel ATP Regeneration System
STAN-117CA	CA	ISSUED	2365668		2,365,668	In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117CON	US	ISSUED	09/948,815	US-2002-0081660-A1	6,994,986	In Vitro Synthesis of Polypeptides by Optimizing Amino Acid Metabolism
STAN-117EP	EP	PUBLISHED	923078			In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117JP	JP	ISSUED	2000-605770	2002-538832	4707237	In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117JPDIV	JP	PUBLISHED	2010-259783	2011-079845		In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-117WO	WO	NAT PHASE	US00/07095	WO00/5353		In Vitro Macromolecule Biosynthesis Methods Using Exogenous Amino Acids and a Novel ATP Regeneration System
STAN-152	US	ISSUED	09/621,339		6,337,191	In Vitro Protein Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152CA	CA	ABANDONED	2428693			In Vitro Protein Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152EP	EP	ABANDONED	980413.9			In Vitro Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152JP	JP	ABANDONED	2002-543505			In Vitro Synthesis Using Glycolytic Intermediates as an Energy Source
STAN-152PRV	US	EXPIRED	60/145,438			In Vitro Synthesis Using Glucose Or Glycolytic Intermediates as an Energy Source
STAN-152WO	WO	NAT PHASE	US00/31449			In Vitro Synthesis Using Glycolytic Intermediates as an Energy Source

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-205	US	ISSUED	09/948,052	US-2002-0058303-A1	6,548,276	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205AU	AU	ISSUED	2001288931		2001288931	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205CA	CA	ISSUED	2419996		2419996	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205CIP	US	ISSUED	10/404,599	US-2004-0038332-A1	7,041,479	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205EP	EP	ISSUED	1968701.1	1315826	1315826	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205JP	JP	ISSUED	2002-525824	2004-508050	4889185	Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205PRV	US	EXPIRED	60/230,381			Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-205WO	WO	NAT PHASE	US01/28159	WO 02/20818		Enhanced In Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-273	US	ISSUED	10/643,683	US 2004-0209321 A1	7,338,789	Methods of In Vitro Protein Synthesis
STAN-273AU	AU	ISSUED	2003259912		2003259912	Improved Methods of In Vitro Protein Synthesis
STAN-273CA	CA	ISSUED	2496437		2496437	Improved Methods of In Vitro Protein Synthesis
STAN-273DIV	US	ISSUED	11/971,130	US 2008-0138857A1	8,357,529	Methods of In Vitro Protein Synthesis
STAN-273EP	EP	ISSUED	3788625.6	1539948	1539948	Improved Methods of In Vitro Protein Synthesis
STAN-273EPDIV	EP	ABANDONED	9009204	2108697		Improved Methods of In Vitro Protein Synthesis
STAN-273JP	JP	ISSUED	2004-529558	2005-536206	5259046	Improved Methods of In Vitro Protein Synthesis
STAN-273JPDIV	JP	ABANDONED	2010-153515	2010-279368		Improved Methods of In Vitro Protein Synthesis
STAN-273PRV	US	EXPIRED	60/404,591			Methods of In Vitro Protein Synthesis
STAN-273WO	WO	NAT PHASE	US03/25888	WO 2004/016778		Improved Methods of In Vitro Protein Synthesis

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-309	US	ISSUED	10/888,145	US-2005-0054032-A1	7,341,852	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309AU	AU	ISSUED	2004259433		2004259433	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309EP	EP	ISSUED	4778237	1649025	1649025	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309JP	JP	ISSUED	2006-521119	2006-527997	4751829	Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309PRV	US	EXPIRED	60/488,2.82			Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-309WO	WO	NAT PHASE	US2004/022632	WO 2004/022632		Methods of Decoupling Reaction Scale and Protein Synthesis Yield in Batch Mode
STAN-337	US	PUBLISHED	10/579,711	US 2007-0154983 A1		Improved Methods of In Vitro Protein Synthesis
STAN-337AU	AU	ISSUED	2004293798		2004293798	Improved Methods of In Vitro Protein Synthesis
STAN-337CN	CN	PUBLISHED	2.0048E+11	101014716		Improved Methods of In Vitro Protein Synthesis
STAN-337EP	EP	PUBLISHED	4811533.1	1685240		Improved Methods of In Vitro Protein Synthesis
STAN-337IN	IN	ISSUED	1741/CHENP/2006		239129	A Method for Synthesis of Polynucleotides and/or Polypeptides
STAN-337JP	JP	ISSUED	2006-541404	2007-521023	5074768	Improved Methods of In Vitro Protein Synthesis
STAN-337KR	KR	ISSUED	2006-7010314		10-1232656	
TAN-337NZ	Z	ISSUED	546961	Journal No. 1559	46961	Improved Methods of In Vitro Protein Synthesis
TAN-337PRV	S	EXPIRED	60/524,374			Improved Methods of In Vitro Protein Synthesis
TAN-337WO	O	NAT PHASE	US2004/038830-	WO2005/052117		Improved Methods of In Vitro Protein Synthesis

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-353	US	ISSUED	10/599,310	US 2009-0042244 A1	8,298,759	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353AU	AU	ISSUED	2005230916		2005230916	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353CA	CA	PENDING	2560504			Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353CN	CN	ABANDONED	2.0058E+11			Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353EA	EA	ISSUED	200601748		10837	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353EP	EP	ISSUED	5733219.9	1730313	1730313	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353ID	ID	ISSUED	W00 2006 02538	047.0258A	P0029416	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353JP	JP	ISSUED	2007- 505063	2007-530042	4829215	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353KR	KR	ISSUED	10-2006- 7019493		10-1229849	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353MX	MX	ISSUED	PA/a/ 2006/010918		280082	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353NO	NO	ISSUED	20064735		331586	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353NZ	NZ	ISSUED	549523	1564	549523	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-353PRV	US	EXPIRED	60/556,736			Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353SG	SG	ISSUED	200606158-4		125458	Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-353WO	WO	NAT PHASE	US2005/009342	WO 2005/098048		Protein Expression Yield Enhancement in Cell-Free Protein Synthesis Systems by Addition of Antifoam Agents
STAN-405	US	ISSUED	11/447,367	US 2007-0004001 A1	7,312,049	Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405AU	AU	ISSUED	2006259543		2006259543	Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405CA	CA	PENDING	2611908			Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405EP	EP	PUBLISHED	6784839	1893768		Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405PRV	US	EXPIRED	60/690,571			Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-405WO	WO	NAT PHASE	US2006/023032	WO 2006/138322		Total Amino Acid Stabilization During Cell-Free Protein Synthesis
STAN-459	US	ISSUED	12/089,596	US 2009-0029414 A1	8,183,010	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459AU	AU	ISSUED	2006308854		2006308854	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459CA	CA	PENDING	2626061			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459DIV	US	ISSUED	13/468,907		8,492,115	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459EP	EP	PUBLISHED	6844245.8	1943338		Cell-Free Synthesis of Membrane Bound Polypeptides



<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-459IN	IN	PENDING	3144/DELNP/2008			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459JP	JP	ISSUED	2008-538111	2009-513146	5383197	Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459PRV	US	EXPIRED	60/732,437			Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-459WO	WO	NAT PHASE	US2006/042583	WO 2007/053655		Cell-Free Synthesis of Membrane Bound Polypeptides
STAN-507	US	ISSUED	12/305,617	US 2010- 0093024 A1	8,715,958	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507AU	AU	ISSUED	2007325952		2.007325952	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507CA	CA	PENDING	2657811			Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507CN	CN	ISSUED	2.0078E+11		ZL200780024345.9	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507EP	EP	ISSUED	7870711.4	2035554	2035554	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507IN	IN	ISSUED	2784/MUMNP/2008		258411	Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507JP	JP	PUBLISHED	2009-518303	2009-542214		Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507PRV	US	EXPIRED	60/817,915			Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids
STAN-507WO	WO	NAT PHASE	US2007/015170	WO 2008/066583		Cell-Free Synthesis of Proteins Containing Unnatural Amino Acids

<u>MATTER NO</u>	<u>COUNTRY</u>	<u>STATUS</u>	<u>SERIAL NO</u>	<u>PUBL NO</u>	<u>PATENT NO</u>	<u>TITLE</u>
STAN-534	US	ISSUED	12/016,763	US 2008-0248521 A1	7,871,794	Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534AU	AU	ABANDONED	2008205479			Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534CA	CA	ABANDONED	2673765			Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534EP	EP	ABANDONED	8724626	2109682		Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534JP	JP	ABANDONED	2009- 546434	2010-516251		Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534PRV	US	EXPIRED	60/881,251			Enhanced in Vitro Synthesis of Active Proteins Containing Disulfide Bonds
STAN-534WO	WO	NAT PHASE	US2008/000699	WO 2008/088884		Enhanced Cell-Free Synthesis of Active Proteins Containing Disulfide Bonds



**Schedule 4.3**  
**Stanford In-License Sublicensing Requirements**

Merck KGaA ("Merck") hereby agrees to be bound by the terms and conditions of the Stanford In-License, including the terms set forth below, to the same extent Sutro (formerly known as Fundamental Applied Biology, Inc., or "FAB") is bound thereunder, as if references to FAB or Sutro were references to Merck.

**Sec. 1.** Capital Terms used in the following provisions 9 and 10 from the Stanford In-License shall have the meaning as set forth in the Stanford In-License. Upon the occurrence of Sutro's Inability To Perform, and the exercise of the sublicense granted to Merck under Section 4.2, the following provisions of the Stanford In-License (Articles 9 and 10) are hereby included in the Agreement, and Stanford is hereby named as a third party beneficiary of such provisions with respect to Stanford In-Licenses only:

**9 WARRANTIES AND NEGATION OF WARRANTIES**

- 9.1 Warranties. Stanford warrants and represents that (a) it has the right and authority to enter into this Agreement and to grant licenses of the scope granted in this Agreement and (b) Stanford has not previously granted any rights in the Licensed Patents other than the rights and licenses granted in the Pre-Existing Licenses and will not grant any further rights in the Licensed Patents that are inconsistent with the rights and licenses granted to Sutro herein. For purposes of clarity, Sutro acknowledges that it has been made aware by Stanford of the scope of the field of use of the Pre-Existing Licenses.
- 9.2 Negation of Warranties. Except as expressly set forth in this Agreement, Stanford makes no representations and extends no warranties of any kind, either express or implied. Among other things, Stanford disclaims any express or implied warranty:
- (A) of merchantability, of fitness for a particular purpose,
  - (B) of non-infringement or
  - (C) arising out of any course of dealing.
- 9.3 No Representation of Licensed Patent. Sutro also acknowledges that Stanford does not represent or warrant:
- (A) the validity or scope of any Licensed Patent, or
  - (B) that the exploitation of Licensed Patent or Technology will be successful.

**10 INDEMNITY**

- 10.1 Indemnification. Sutro will indemnify, hold harmless, and defend all Stanford Indemnitees against any and all third party claims for death, illness, personal injury, property damage, and improper business practices arising out of the manufacture, use, sale, or other disposition of the Licensed Patents or Licensed Products by Sutro, unless resulting from a claimed breach by Stanford of its warranties or the gross negligence or willful misconduct of any Stanford Indemnitee; provided that:
- (A) Sutro receives prompt notice of any such claim,
  - (B) Sutro shall not be obligated to indemnify any Stanford Indemnitee in connection with any settlement for any claim unless Sutro consents in writing to such settlement (which consent shall not be unreasonably withheld), and
  - (C) Sutro shall have the first right to defend any such claim and, if Sutro elects to exercise such first right, the exclusive right to control the defense thereof.

---

Notwithstanding the foregoing, Sutro shall have no obligations for any third party claim or demand that may be the subject of this Section 10.1 if the Stanford Indemnitee seeking indemnification makes any admission regarding such claim without the prior written consent of Sutro, which consent shall not be unreasonably withheld.

- 10.2 No Indirect Liability. Neither party shall be liable for any special, consequential, lost profit, expectation, punitive or other indirect damages in connection with any claim arising out of or related to this Agreement, whether grounded in tort (including negligence), strict liability, contract, or otherwise arising out of or in connection with solely this Agreement under any theory of liability; provided, however, that the foregoing shall not apply to any right of action for infringement, contributory infringement or inducement of infringement Stanford may have under any applicable law. Except as provided in Section 9.1, Stanford shall not have any responsibilities or liabilities whatsoever with respect to Licensed Products.
- 10.3 Workers' Compensation. Sutro will comply with all statutory workers' compensation and employers' liability requirements for activities performed under this Agreement.
- 10.4 Insurance. During the term of this Agreement, Sutro will maintain Comprehensive General Liability Insurance, including Product Liability Insurance, with a reputable and financially secure insurance carrier to cover the activities of Sutro and its sublicensees. Upon introduction of Licensed Product into humans, such insurance will provide minimum limits of liability of \$[\*] and will include all Stanford Indemnitees as additional insureds. Such insurance shall be written to cover claims incurred, discovered, manifested, or made during or after the expiration of this Agreement and must be placed with carriers with ratings of at least A- as rated by A.M. Best. Within 15 days of the introduction of Licensed Product into humans, Sutro will furnish a Certificate of Insurance evidencing primary coverage and additional insured requirements. Sutro will provide to Stanford 30 days prior written notice of cancellation or material change to this insurance coverage. Sutro will advise Stanford in writing that it maintains excess liability coverage (following form) over primary insurance for at least the minimum limits set forth above. All insurance of Sutro will be primary coverage; insurance of Stanford and Stanford Hospitals and Clinics will be excess and noncontributory. Notwithstanding the foregoing, if Sutro proposes alternative coverage under this Section 10.4, Stanford shall not unreasonably withhold its consent to such alternative coverage in lieu of the coverage detailed in this Section 10.4, so long as the proposed coverage is reasonable and customary for the industry and reasonably protects Stanford's interests.

**Sec. 2.** If the Stanford In-License is terminated, the applicable obligations with respect to the subject matter covered by the Stanford In-License will be transferred to Stanford or its designee, and Merck will assume such obligations, and (to the extent it exercises any rights to such subject matter) Merck will make any payment thereby due under the Stanford In-License by Sutro directly to Stanford or its designee. For purposes of clarity, it is agreed that in the event the Stanford In-License is terminated, Stanford shall have audit rights vis-à-vis Merck and its Affiliates substantially similar to those set forth in Section 8.5 of the Stanford In-License.

**Sec. 3.** Any sublicense granted by Merck under the Licensed Patents (as defined in the Stanford In-License) will not include the right to further sublicense.

**\*Confidential Treatment Requested.**





**Final: 9/17/2014**

**Sutro Biopharma and Merck KGaA of Darmstadt, Germany, to Partner  
on Development of Antibody Drug Conjugates**

- **Collaboration and license agreement allows the biopharmaceutical division of Merck KGaA, Darmstadt, Germany, to enhance its access to antibody drug conjugate technologies and to expand its oncology pipeline**
- **Sutro's Xpress CF™ and Xpress CF+™ platforms to be utilized to develop antibody drug conjugates for multiple undisclosed targets**

SAN FRANCISCO, September 17, 2014 – Sutro Biopharma, a biopharmaceutical company developing antibody drug conjugates and bispecific antibodies, and the biopharmaceutical division of Merck KGaA, Darmstadt, Germany, which operates as EMD Serono in the United States and Canada, today announced a collaboration and license agreement to develop antibody drug conjugates (ADCs). ADCs are composed of an antibody linked to a cytotoxic drug. The antibody is thought to specifically target and deliver the cytotoxic drug to the cancer cells.

The collaboration will allow the biopharmaceutical division of Merck KGaA to take advantage of Sutro's technology platforms in its oncology programs to develop ADCs for multiple undisclosed targets. Both companies believe that ADCs have the potential for directly targeting cancer cells while safeguarding healthy tissue, and will combine Merck KGaA's knowledge about target biology with Sutro's technological and discovery capabilities to jointly develop ADCs. By following a strategic approach of creating partnerships, Merck KGaA and Sutro aim to develop drug candidates that may ultimately address the unmet needs of patients.

---

“We continue to explore opportunities that will allow us to better understand the potential ADCs have in directly targeting cancer cells,” said Andree Blaukat, Senior Vice President and Head of Translational Innovation Platform Oncology at Merck Serono, the biopharmaceutical division of Merck KGaA, Darmstadt, Germany. “This collaboration with Sutro is reflective of our ongoing commitment to advancing innovation that may provide new therapies for patients.”

“This partnership will help us to advance our position as a leading drug discovery partner to renowned pharmaceutical companies like Merck in Darmstadt, Germany,” said William J. Newell, chief executive officer of Sutro. “Together with Merck KGaA, we will further advance our efforts to develop antibody therapeutics, engineered to deliver a cytotoxic agent to cancer cells. Our technology has been developed to allow loading of an antibody with multiple different agents, and to enable a potential higher uptake of the drug in the tumor cell through improved stability of the ADC.”

Under the terms of the agreement, Sutro and Merck KGaA will collaborate to discover and develop multiple ADCs utilizing Sutro’s cell-free protein synthesis platforms, Xpress CF™ and Xpress CF+™. Sutro will be responsible for delivering ADCs for Phase I clinical trials. Merck KGaA will be responsible for clinical development and commercialization of any resulting products.

Merck KGaA will make an upfront payment to Sutro and will fund certain R&D activities. Sutro is also eligible to receive payments on completion of certain research, development and regulatory milestones potentially totaling approximately € 230 million as well as royalties on product sales. Further financial details are not being disclosed.

#### **About Sutro Biopharma**

Sutro Biopharma, located in South San Francisco, is developing a new generation of antibody drug conjugate therapeutics and bifunctional antibody-based therapeutics for targeted cancer therapies. These therapeutics may significantly extend the clinical impact of current oncology therapeutic approaches and are beyond what can be



---

envisioned with current, cell-based expression technologies. Sutro's biochemical synthesis technology, which underpins these therapeutics, allows the rapid and systematic exploration of many protein drug variants to identify drug candidates. Once the product candidates are identified, production can be rapidly and predictably scaled up to commercial levels. Sutro has established a Good Manufacturing Practice (cGMP) facility for the production of clinical supplies of materials using its biochemical protein synthesis platform. Sutro has formed multiple partnerships with biopharma companies utilizing its technology.

For more information, visit [www.sutro.bio.com](http://www.sutro.bio.com).

#### **About EMD Serono, Inc.**

EMD Serono, Inc., a subsidiary of Merck KGaA, Darmstadt, Germany, is a leading US biopharmaceutical company focused exclusively on specialty care. For more than 40 years, EMD Serono has integrated cutting-edge science, innovative products and devices, and industry-leading patient support and access programs. EMD Serono has deep expertise in neurology, fertility and endocrinology, as well as a robust pipeline of potential therapies in neurology, oncology, immunology and immuno-oncology. Today, EMD Serono has more than 1,100 employees around the country with commercial, clinical and research operations based in the company's home state of Massachusetts. For more information, please visit [www.emdserono.com](http://www.emdserono.com)

#### **About Merck KGaA, Darmstadt, Germany**

Merck KGaA of Darmstadt, Germany, is a leading company for innovative and top-quality high-tech products in the pharmaceutical and chemical sectors. Its subsidiaries in Canada and the United States operate under the umbrella brand EMD. Around 39,000 employees work in 66 countries to improve the quality of life for patients, to further the success of customers and to help meet global challenges. The company generated total revenues of €11.1 billion in 2013 with its four divisions: Biopharmaceuticals, Consumer Health, Performance Materials and Life Science Tools. Merck KGaA of Darmstadt, Germany is the world's oldest pharmaceutical and chemical company - since 1668, the name has stood for innovation, business success and responsible entrepreneurship. Holding an approximately 70 percent interest, the founding family remains the majority owner of the company to this day.

---

**Media Contact Sutrø:**

Martina Schwarzkopf, Ph.D.

Russo Partners

212 845-4292

[martina.schwarzkopf@russopartnersllc.com](mailto:martina.schwarzkopf@russopartnersllc.com)

---

Your Contact

Andrea Marquart  
Phone +49 6151 72-6517

News Release

September 17, 2014

**Merck Serono and Sutro Biopharma to Partner on Development of Antibody Drug Conjugates**

- **Merck Serono to enhance its access to antibody drug conjugate technologies and to expand its oncology pipeline**
- **Sutro's Xpress CF and Xpress CF+ platforms to be utilized to develop antibody drug conjugates for multiple undisclosed targets**

Darmstadt, Germany, September 17, 2014 – Merck Serono, the biopharmaceutical division of Merck, and Sutro Biopharma, San Francisco, a biopharmaceutical company developing antibody drug conjugates and bispecific antibodies, today announced a collaboration and license agreement to develop antibody drug conjugates (ADCs). ADCs are composed of an antibody linked to a cytotoxic drug. The antibody is thought to specifically target and deliver the cytotoxic drug to the cancer cells.

The collaboration will allow Merck Serono to take advantage of Sutro's technology platforms in its oncology programs to develop ADCs for multiple undisclosed targets. Both companies believe that ADCs have the potential for directly targeting cancer cells while safeguarding healthy tissue, and will combine Merck Serono's knowledge about target biology with Sutro's technological and discovery capabilities to jointly develop ADCs. By following a strategic approach of creating partnerships, Merck Serono and Sutro aim to develop drug candidates that may ultimately address the unmet needs of patients.

"We continue to explore opportunities that will allow us to better understand the potential ADCs have in directly targeting cancer cells," said Andree Blaukat, Senior Vice President and Head of Translational Innovation Platform Oncology at Merck Serono. "This collaboration with Sutro is reflective of our ongoing commitment to advancing innovation that may provide new therapies for patients."

---

“This partnership will help us to advance our position as a leading drug discovery partner to renowned pharmaceutical companies like Merck,” said William J. Newell, chief executive officer of Sutro. “Together with Merck Serono, we will further advance our efforts to develop antibody therapeutics, engineered to deliver a cytotoxic agent to cancer cells. Our technology has been developed to allow loading of an antibody with multiple different agents, and to enable a potential higher uptake of the drug in the tumor cell through an improved stability of the ADC.”

Under the terms of the agreement, Sutro and Merck Serono will collaborate to discover and develop multiple ADCs utilizing Sutro’s cell-free protein synthesis platforms, Xpress CF™ and Xpress CF+™. Sutro will be responsible for delivering ADCs for Phase I clinical trials. Merck Serono will be responsible for clinical development and commercialization of any resulting products.

Merck Serono will make an upfront payment to Sutro and will fund certain R&D activities. Sutro is also eligible to receive payments on completion of certain research, development and regulatory milestones potentially totaling approximately € 230 million as well as royalties on product sales. Further financial details are not being disclosed.

#### **About Sutro Biopharma**

Sutro Biopharma, located in South San Francisco, is developing a new generation of antibody drug conjugate therapeutics and bifunctional antibody-based therapeutics for targeted cancer therapies. These therapeutics may significantly extend the clinical impact of current oncology therapeutic approaches and are beyond what can be envisioned with current, cell-based expression technologies. Sutro’s biochemical synthesis technology, which underpins these therapeutics, allows the rapid and systematic exploration of many protein drug variants to identify drug candidates. Once the product candidates are identified, production can be rapidly and predictably scaled up to commercial levels. Sutro has established a Good Manufacturing Practice (cGMP) facility for the production of clinical supplies of materials using its biochemical protein synthesis platform. Sutro has formed multiple partnerships with biopharma companies utilizing its technology.

For more information, visit [www.sutro.bio.com](http://www.sutro.bio.com).

#### **About Merck Serono**

Merck Serono is the biopharmaceutical division of Merck. With headquarters in Darmstadt, Germany, Merck Serono offers leading brands in 150 countries to help patients with cancer, multiple sclerosis, infertility, endocrine and metabolic disorders as well as cardiovascular diseases. In the United States and Canada, EMD Serono operates as a separately incorporated subsidiary of Merck Serono.

Merck Serono discovers, develops, manufactures and markets prescription medicines of both chemical and biological origin in specialist indications. We have an enduring commitment to deliver novel therapies in our core focus areas of neurology, oncology, immuno-oncology and immunology.

For more information, please visit [www.merckserono.com](http://www.merckserono.com).

All Merck Press Releases are distributed by e-mail at the same time they become available on the Merck Website. Please go to [www.merckgroup.com/subscribe](http://www.merckgroup.com/subscribe) to register online, change your selection or discontinue this service.

---

Merck is a leading company for innovative and top-quality high-tech products in the pharmaceutical and chemical sectors. With its four divisions Merck Serono, Consumer Health, Performance Materials and Merck Millipore, Merck generated total revenues of €11.1 billion in 2013. Around 39,000 Merck employees work in 66 countries to improve the quality of life for patients, to further the success of customers and to help meet global challenges. Merck is the world's oldest pharmaceutical and chemical company - since 1668, the company has stood for innovation, business success and responsible entrepreneurship. Holding an approximately 70 percent interest, the founding family remains the majority owner of the company to this day. Merck, Darmstadt, Germany is holding the global rights to the Merck name and brand. The only exceptions are Canada and the United States, where the company is known as EMD.

[\*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 406 of the Securities Act of 1933, as amended.

**Amendment 1 to the License Agreement dated September 16, 2014 (the "Agreement")**

between: Sutro Biopharma Inc.  
310 Utah Ave, Suite 150  
South San Francisco, CA 94080  
USA

and: Merck KGaA  
Frankfurter Strasse 250  
64293 Darmstadt  
Germany

The Parties have concluded the Agreement effective as of September 16, 2014. Capitalized terms used and not otherwise defined in this Amendment No. 1 shall have the meanings set forth in the Agreement. The Parties herewith amend the Agreement as follows:

1. Section 2.5 shall be replaced as follows: *"Availability of Targets. Merck may designate up to six (6) Targets under this Agreement as follows: The [\*] Target are the Named Targets set forth in the Collaboration Agreement. Merck may designate a [\*] Additional Target as Accepted Targets in accordance with Sections 2.5 and 2.6 within [\*] months from the Effective Date ("Target Nomination Date"). Merck may designate a [\*] Additional Target as Accepted Targets in accordance with Sections 2.5 and 2.6 at any time following the Target Nomination Date until [\*] months from the Effective Date at the latest. All such Additional Targets that become Accepted Targets will be set forth on Schedule 1.1.*
2. In all other aspects the Agreement shall remain unchanged.

South San Francisco,  
Sutro Biopharma

/s/ William J. Newell

William J. Newell  
CEO

Darmstadt, August 26, 2015  
Merck KGaA

/s/ i.V. Axel Hoffmann  
Axel Hoffmann  
Director Alliance Management  
Global Business Development &  
Alliance Management  
Dr. Axel Hoffmann

/s/ i.V. Simone Heitz

Dr. S. Heitz  
Senior Corporate Counsel

## LOAN AND SECURITY AGREEMENT

**THIS LOAN AND SECURITY AGREEMENT** (as the same may from time to time be amended, modified, supplemented or restated, this “**Agreement**”) dated as of August 4, 2017 (the “**Effective Date**”) among OXFORD FINANCE LLC, a Delaware limited liability company with an office located at 133 North Fairfax Street, Alexandria, Virginia 22314 (“**Oxford**”), as collateral agent (in such capacity, “**Collateral Agent**”), the Lenders listed on Schedule 1.1 hereof or otherwise a party hereto from time to time including Oxford in its capacity as a Lender and SILICON VALLEY BANK, a California corporation with an office located at 3003 Tasman Drive, Santa Clara, CA 95054 (“**Bank**” or “**SVB**”) (each a “**Lender**” and collectively, the “**Lenders**”), and SUTRO BIOPHARMA, INC., a Delaware corporation with offices located at 310 Utah Street, Suite 150, South San Francisco, CA 94080 (“**Borrower**”), provides the terms on which the Lenders shall lend to Borrower and Borrower shall repay the Lenders. The parties agree as follows:

### 1. ACCOUNTING AND OTHER TERMS

1.1 Accounting terms not defined in this Agreement shall be construed in accordance with GAAP. Calculations and determinations must be made in accordance with GAAP, as applicable. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein. All references to “**Dollars**” or “**\$**” are United States Dollars, unless otherwise noted.

### 2. LOANS AND TERMS OF PAYMENT

2.1 **Promise to Pay.** Borrower hereby unconditionally promises to pay Collateral Agent (for the benefit of the Lenders), the outstanding principal amount of all Term Loans advanced to Borrower by each Lender and accrued and unpaid interest thereon and any other amounts due hereunder as and when due in accordance with this Agreement.

#### 2.2 Term Loan.

(a) **Availability.** Subject to the terms and conditions of this Agreement, the Lenders agree, severally and not jointly, to make term loans to Borrower on the Effective Date in an aggregate amount of Fifteen Million Dollars (\$15,000,000) according to each Lender’s Term Loan Commitment as set forth on Schedule 1.1 hereto (such term loans are hereinafter referred to singly as a “**Term Loan**”, and collectively as the “**Term Loans**”). After repayment, no Term Loan may be re-borrowed.

(b) **Repayment.** Borrower shall make monthly payments of interest only commencing on the first (1<sup>st</sup>) Payment Date following the Funding Date of the Term Loan, and continuing on the Payment Date of each successive month thereafter through and including the Payment Date immediately preceding the Amortization Date. Borrower agrees to pay, on the Funding Date of the Term Loan, any initial partial monthly interest payment otherwise due for the period between the Funding Date of the Term Loan and the first Payment Date thereof. Commencing on the Amortization Date, and continuing on the Payment Date of each month thereafter, Borrower shall make consecutive equal monthly payments of principal, together with applicable interest, in arrears, to Collateral Agent (for the benefit of the Lenders), as calculated by Collateral Agent (which calculations shall be deemed correct absent manifest error) based upon: (1) the amount of such Lender’s Term Loan, (2) the effective rate of interest, as determined in Section 2.3(a), and (3) a repayment schedule equal to thirty (30) months; provided, however, if the Amortization Date is extended upon completion of the Additional Capital Event, then such thirty (30) month period shall be reduced to twenty-four (24) months. All unpaid principal and accrued and unpaid interest with respect to the Term Loan is due and payable in full on the Maturity Date. The Term Loan may only be prepaid in accordance with Sections 2.2(c) and 2.2(d).

(c) **Mandatory Prepayments.** If the Term Loans are accelerated following the occurrence of an Event of Default, Borrower shall immediately pay to Collateral Agent (for the benefit of the Lenders), payable to Collateral Agent in accordance with each Lender’s respective Pro Rata Share, an amount equal to the sum of: (i) all outstanding principal of the Term Loans plus accrued and unpaid interest thereon through the repayment date,

(ii) the Final Payment, (iii) the Prepayment Fee, plus (iv) all other Obligations that are due and payable, including Lenders' Expenses and interest at the Default Rate with respect to any past due amounts. Notwithstanding (but without duplication with) the foregoing, on the Maturity Date, if the Final Payment had not previously been paid in full in connection with the prepayment of the Term Loans in full, Borrower shall pay to Collateral Agent, for payment to each Lender in accordance with its respective Pro Rata Share, the Final Payment in respect of the Term Loan(s).

(d) Permitted Prepayment of Term Loans. Borrower shall have the option to prepay all, but not less than all, of the Term Loans advanced by the Lenders under this Agreement, provided Borrower (i) provides written notice to Collateral Agent of its election to prepay the Term Loans at least thirty (30) days prior to such prepayment, and (ii) pays to the Lenders on the date of such prepayment, payable to each Lender in accordance with its respective Pro Rata Share, an amount equal to the sum of (A) all outstanding principal of the Term Loans plus accrued and unpaid interest thereon through the prepayment date, (B) the Final Payment, (C) the Prepayment Fee, plus (D) all other Obligations that are due and payable, including Lenders' Expenses and interest at the Default Rate with respect to any past due amounts.

### 2.3 Payment of Interest on the Credit Extensions.

(a) Interest Rate. Subject to Section 2.3(b), the principal amount outstanding under the Term Loans shall accrue interest at a floating per annum rate equal to the Basic Rate, determined by Collateral Agent on the Funding Date of the applicable Term Loan, which interest shall be payable monthly in arrears in accordance with Sections 2.2(b) and 2.3(e). Interest shall accrue on each Term Loan commencing on, and including, the Funding Date of such Term Loan, and shall accrue on the principal amount outstanding under such Term Loan through and including the day on which such Term Loan is paid in full.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall accrue interest at a floating per annum rate equal to the rate that is otherwise applicable thereto plus five percentage points (5.00%) (the "**Default Rate**"). Payment or acceptance of the increased interest rate provided in this Section 2.3(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Collateral Agent.

(c) 360-Day Year. Interest shall be computed on the basis of a three hundred sixty (360) day year, and the actual number of days elapsed.

(d) Debit of Accounts. Collateral Agent and each Lender may debit (or ACH) any deposit accounts, maintained by Borrower or any of its Subsidiaries, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes the Lenders under the Loan Documents when due. Any such debits (or ACH activity) shall not constitute a set-off.

(e) Payments. Except as otherwise expressly provided herein, all payments by Borrower under the Loan Documents shall be made to Collateral Agent for the benefit of the respective Lender to which such payments are owed, at Collateral Agent's office in immediately available funds on the date specified herein. Unless otherwise provided, interest is payable monthly on the Payment Date of each month. Payments of principal and/or interest received after 3:00 PM Eastern time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest, as applicable, shall continue to accrue until paid. All payments to be made by Borrower hereunder or under any other Loan Document, including payments of principal and interest, and all fees, expenses, indemnities and reimbursements, shall be made without set-off, recoupment or counterclaim, in lawful money of the United States and in immediately available funds.

**2.4 Secured Promissory Notes**. The Term Loans shall be evidenced by a Secured Promissory Note or Notes in the form attached as Exhibit D hereto (each a "**Secured Promissory Note**"), and shall be repayable as set forth in this Agreement. Borrower irrevocably authorizes each Lender to make or cause to be made, on or about the Funding Date of any Term Loan or at the time of receipt of any payment of principal on such Lender's Secured Promissory Note, an appropriate notation on such Lender's Secured Promissory Note Record reflecting the making of such Term Loan or (as the case may be) the receipt of such payment. The outstanding amount of each Term Loan



set forth on such Lender's Secured Promissory Note Record shall be prima facie evidence of the principal amount thereof owing and unpaid to such Lender, but the failure to record, or any error in so recording, any such amount on such Lender's Secured Promissory Note Record shall not limit or otherwise affect the obligations of Borrower under any Secured Promissory Note or any other Loan Document to make payments of principal of or interest on any Secured Promissory Note when due. Upon receipt of an affidavit of an officer of a Lender as to the loss, theft, destruction, or mutilation of its Secured Promissory Note, Borrower shall issue, in lieu thereof, a replacement Secured Promissory Note in the same principal amount thereof and of like tenor.

**2.5 Fees.** Borrower shall pay to Collateral Agent:

(a) Final Payment. The Final Payment, when due hereunder, to be shared between the Lenders in accordance with their respective Pro Rata Shares;

(b) Prepayment Fee. The Prepayment Fee, when due hereunder, to be shared between the Lenders in accordance with their respective Pro Rata Shares; and

(c) Good Faith Deposit. An amount of Thirty-Five Thousand Dollars (\$35,000) has been received by Collateral Agent as a good faith deposit from Borrower on or about November 2, 2016, and will be applied towards Lenders' Expenses for the documentation and negotiation of this Agreement that are payable by the Borrower pursuant to Section 2.5(d) hereof. For the purposes of clarity, Borrower shall be responsible for all Lender's Expenses payable pursuant to Section 2.5(d) hereof.

(d) Lenders' Expenses. All out-of-pocket Lenders' Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due.

**2.6 Withholding.** Payments received by the Lenders from Borrower hereunder will be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any governmental authority (including any interest, additions to tax or penalties applicable thereto). Specifically, however, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any withholding or deduction from any such payment or other sum payable hereunder to the Lenders, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, each Lender receives a net sum equal to the sum which it would have received had no withholding or deduction been required and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Authority; provided, that Borrower shall not be required to make such increased payment to a Lender who is not a United States Person (as defined in Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended) or who has not provided a duly executed original IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax. Borrower will, upon request, furnish the Lenders with proof reasonably satisfactory to the Lenders indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section 2.6 shall survive the termination of this Agreement.

**3. CONDITIONS OF LOANS**

**3.1 Conditions Precedent to Initial Credit Extension.** Each Lender's obligation to make a Term Loan is subject to the condition precedent that Collateral Agent and each Lender shall consent to or shall have received, in form and substance satisfactory to Collateral Agent and each Lender, such documents, and completion of such other matters, as Collateral Agent and each Lender may reasonably deem necessary or appropriate, including, without limitation:

(a) original Loan Documents, each duly executed by Borrower and each Subsidiary, as applicable;

(b) duly executed original Control Agreements with respect to any Collateral Accounts maintained by Borrower or any of its Subsidiaries;

(c) duly executed original Secured Promissory Notes in favor of each Lender according to its Term Loan Commitment Percentage;

(d) [Reserved];

(e) the Operating Documents and good standing certificates of Borrower and its Subsidiaries certified by the Secretary of State (or equivalent agency) of Borrower's and such Subsidiaries' jurisdiction of organization or formation and each jurisdiction in which Borrower and each Subsidiary is qualified to conduct business, each as of a date no earlier than thirty (30) days prior to the Effective Date;

(f) a completed Perfection Certificate for Borrower and each of its Subsidiaries;

(g) the Annual Projections, for the current calendar year;

(h) duly executed original officer's certificate for Borrower and each Subsidiary that is a party to the Loan Documents, in a form acceptable to Collateral Agent and the Lenders;

(i) certified copies, dated as of date no earlier than thirty (30) days prior to the Effective Date, of financing statement searches, as Collateral Agent shall request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;

(j) to the extent requested by the Lenders, a landlord's consent executed in favor of Collateral Agent in respect of all of Borrower's and each Subsidiaries' leased locations;

(k) a bailee waiver executed in favor of Collateral Agent in respect of each third party bailee where Borrower or any Subsidiary maintains Collateral having a book value in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00);

(l) a duly executed legal opinion of counsel to Borrower dated as of the Effective Date;

(m) evidence satisfactory to Collateral Agent and the Lenders that the insurance policies required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing loss payable and/or additional insured clauses or endorsements in favor of Collateral Agent, for the ratable benefit of the Lenders;

(n) a copy of any applicable Registration Rights Agreement or Investors' Rights Agreement and any amendments thereto;

(o) a copy of the Celgene Negative Pledge and Amendment Agreement;

(p) a subordination agreement, duly executed by each holder of Subordinated Debt; and

(q) payment of the fees and Lenders' Expenses then due as specified in Section 2.5 hereof.

**3.2 Conditions Precedent to all Credit Extensions.** The obligation of each Lender to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) receipt by (i) the Lenders of an executed Disbursement Letter in the form of Exhibit B-1 attached hereto; and (ii) SVB of an executed Loan Payment/Advance Request Form in the form of Exhibit B-2 attached hereto;

(b) the representations and warranties in Section 5 hereof shall be true, accurate and complete in all material respects on the date of the Disbursement Letter (and the Loan Payment/Advance Request Form) and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in Section 5 hereof are true, accurate and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date;

(c) in such Lender's sole but reasonable discretion, there has not been any Material Adverse Change;

(d) to the extent not delivered at the Effective Date, (i) duly executed original Secured Promissory Notes in the form attached hereto as ~~Exhibit D~~ in favor of each Lender according to its Commitment Percentage, with respect to each Credit Extension made by such Lender after the Effective Date and (ii) Warrants, in number, form and content acceptable to each Lender, and in favor of each Lender to purchase a certain number of shares of the Preferred Stock (as defined in the Warrant) as set forth therein; and

(e) payment of the fees and Lenders' Expenses then due as specified in Section 2.5 hereof.

**3.3 Covenant to Deliver.** Borrower agrees to deliver to Collateral Agent and the Lenders each item required to be delivered to Collateral Agent under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Collateral Agent or any Lender of any such item shall not constitute a waiver by Collateral Agent or any Lender of Borrower's obligation to deliver such item, and any such Credit Extension in the absence of a required item shall be made in each Lender's sole discretion.

**3.4 Procedures for Borrowing.** Subject to the prior satisfaction of all other applicable conditions to the making of a Term Loan set forth in this Agreement, to obtain a Term Loan, Borrower shall notify the Lenders (which notice shall be irrevocable) by electronic mail, facsimile, or telephone by 3:00 PM Eastern time five (5) Business Days prior to the date the Term Loan is to be made. Together with any such electronic, facsimile or telephonic notification, Borrower shall deliver to the Lenders by electronic mail or facsimile a completed Disbursement Letter (and the Loan Payment/Advance Request Form, with respect to SVB) executed by a Responsible Officer or his or her designee. The Lenders may rely on any telephone notice given by a person whom a Lender reasonably believes is a Responsible Officer or designee. On the Funding Date, each Lender shall credit and/or transfer (as applicable) to the Designated Deposit Account, an amount equal to its Term Loan Commitment.

#### **4. CREATION OF SECURITY INTEREST**

**4.1 Grant of Security Interest.** Borrower hereby grants Collateral Agent, for the ratable benefit of the Lenders, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Collateral Agent, for the ratable benefit of the Lenders, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof. Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral, subject only to Permitted Liens that are permitted by the terms of this Agreement to have priority to Collateral Agent's Lien. If Borrower shall acquire a commercial tort claim (as defined in the Code), Borrower, shall promptly notify Collateral Agent in a writing signed by Borrower, as the case may be, of the general details thereof (and further details as may be required by Collateral Agent) and grant to Collateral Agent, for the ratable benefit of the Lenders, in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Collateral Agent.

Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Unless otherwise provided in any Bank Services Agreement, Borrower agrees that any amounts Borrower owes Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that may have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Collateral Agent's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as the Lenders' obligation to make Credit Extensions has terminated, Collateral Agent shall, at the sole cost and expense of Borrower, release its Liens in the Collateral (including by filing any appropriate termination statements and executing such other documents reasonably requested by Borrower, and at the sole cost and expense of Borrower, to effect and/or evidence the termination of its Liens in the Collateral) and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Collateral Agent shall terminate the security interest granted herein upon Borrower providing cash collateral acceptable to Bank in its good faith business judgment for Bank Services, if any. In the event such Bank Services consist of outstanding Letters of Credit, it shall be sufficient cash collateral acceptable to Bank for securing such Bank Services in applying the provisions of clause (y) with respect to Bank Services that consist of Letters of Credit, if Borrower provides, to Bank cash collateral in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then one hundred five percent (105%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then one hundred ten percent (110%), of the Dollar Equivalent of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment), to secure all of the Obligations relating to such Letters of Credit.

**4.2 Authorization to File Financing Statements.** Borrower hereby authorizes Collateral Agent to file financing statements or take any other action required to perfect Collateral Agent's security interests in the Collateral, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Collateral Agent's interest or rights under the Loan Documents, including a notice that any disposition of the Collateral, except to the extent permitted by the terms of this Agreement, by Borrower, or any other Person, shall be deemed to violate the rights of Collateral Agent under the Code.

**4.3 Pledge of Collateral.** Borrower hereby pledges, assigns and grants to Collateral Agent, for the ratable benefit of the Lenders, a security interest in all the Shares, together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, as security for the performance of the Obligations. On the Effective Date, or, to the extent not certificated as of the Effective Date, within ten (10) days of the certification of any Shares, the certificate or certificates for the Shares will be delivered to Collateral Agent, accompanied by an instrument of assignment duly executed in blank by Borrower. To the extent required by the terms and conditions governing the Shares, Borrower shall cause the books of each entity whose Shares are part of the Collateral and any transfer agent to reflect the pledge of the Shares. Upon the occurrence and during the continuance of an Event of Default hereunder, Collateral Agent may effect the transfer of any securities included in the Collateral (including but not limited to the Shares) into the name of Collateral Agent and cause new (as applicable) certificates representing such securities to be issued in the name of Collateral Agent or its transferee. Borrower will execute and deliver such documents, and take or cause to be taken such actions, as Collateral Agent may reasonably request to perfect or continue the perfection of Collateral Agent's security interest in the Shares. Unless an Event of Default shall have occurred and be continuing, Borrower shall be entitled to exercise any voting rights with respect to the Shares and to give consents, waivers and ratifications in respect thereof, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms. All such rights to vote and give consents, waivers and ratifications shall terminate upon the occurrence and continuance of an Event of Default.

## 5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Collateral Agent and the Lenders as follows:

**5.1 Due Organization, Authorization: Power and Authority.** Borrower and each of its Subsidiaries is duly existing and in good standing as a Registered Organization in its jurisdictions of organization or formation and Borrower and each of its Subsidiaries is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its businesses or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a Material Adverse Change. In connection with this Agreement, Borrower and each of its Subsidiaries has delivered to Collateral Agent a completed perfection certificate signed by an officer of Borrower or such Subsidiary (each a "**Perfection Certificate**" and collectively, the "**Perfection Certificates**"). Borrower represents and warrants that as of the Effective Date (a) Borrower and each of its Subsidiaries' exact legal name is that which is indicated on its respective Perfection Certificate and on the signature page of each Loan Document to which it is a party; (b) Borrower and each of its Subsidiaries is an organization of the type and is organized in the jurisdiction set forth on its respective Perfection Certificate; (c) each Perfection Certificate accurately sets forth each of Borrower's and its Subsidiaries' organizational identification number or accurately states that Borrower or such Subsidiary has none; (d) each Perfection Certificate accurately sets forth Borrower's and each of its Subsidiaries' place of business, or, if more than one, its chief executive office as well as Borrower's and each of its Subsidiaries' mailing address (if different than its chief executive office); (e) Borrower and each of its Subsidiaries (and each of its respective predecessors) have not, in the past five (5) years, changed its jurisdiction of organization, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificates pertaining to Borrower and each of its Subsidiaries, is accurate and complete as of the Effective Date and as of any date that such Perfection Certificates may be updated after the Effective Date to the extent permitted by one or more specific provisions in this Agreement; such updated Perfection Certificates subject to the review and approval of Collateral Agent. If Borrower or any of its Subsidiaries is not now a Registered Organization but later becomes one, Borrower shall notify Collateral Agent of such occurrence and provide Collateral Agent with such Person's organizational identification number within five (5) Business Days of receiving such organizational identification number.

The execution, delivery and performance by Borrower and each of its Subsidiaries of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's or such Subsidiaries' organizational documents, including its respective Operating Documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law applicable thereto, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or such Subsidiary, or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect) or are being obtained pursuant to Section 6.1(b), or (v) constitute an event of default under any material agreement by which Borrower or any of such Subsidiaries, or their respective properties, is bound. Neither Borrower nor any of its Subsidiaries is in default under any agreement to which it is a party or by which it or any of its assets is bound in which such default could reasonably be expected to have a Material Adverse Change.

### **5.2 Collateral.**

(a) Borrower and each of its Subsidiaries have good title to, have rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien under the Loan Documents, free and clear of any and all Liens except Permitted Liens, and neither Borrower nor any of its Subsidiaries have any Deposit Accounts, Securities Accounts, Commodity Accounts or other investment accounts other than the Collateral Accounts or the other investment accounts, if any, described in the Perfection Certificates delivered to Collateral Agent in connection herewith with respect of which Borrower or such Subsidiary has given Collateral Agent notice and taken such actions as are necessary to give Collateral Agent a perfected security interest therein. The Accounts are bona fide, existing obligations of the Account Debtors.

(b) On the Effective Date, and except as disclosed on the Perfection Certificate (i) the Collateral is not in the possession of any third party bailee (such as a warehouse), and (ii) no such third party bailee possesses components of the Collateral in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00). None of the components of the Collateral shall be maintained at locations other than as disclosed in the Perfection Certificates on the Effective Date or as permitted pursuant to Section 6.11.

(c) All Inventory is in all material respects of good and marketable quality, free from material defects.

(d) Borrower and each of its Subsidiaries is the sole owner of the Intellectual Property each respectively purports to own, free and clear of all Liens other than Permitted Liens. Except as noted on the Perfection Certificates or otherwise notified to Collateral Agent in writing after the Effective Date, neither Borrower nor any of its Subsidiaries is a party to, nor is bound by, any material license or other material agreement with respect to which Borrower or such Subsidiary is the licensee that (i) prohibits or otherwise restricts Borrower or its Subsidiaries from granting a security interest in Borrower's or such Subsidiaries' interest in such material license or material agreement or any other property, or (ii) for which a default under or termination of could interfere with Collateral Agent's or any Lender's right to sell any Collateral. Borrower shall provide written notice to Collateral Agent and each Lender within ten (10) Business Days of Borrower or any of its Subsidiaries entering into or becoming bound by any material license or other material agreement with respect to which Borrower or any Subsidiary is the licensee (other than over-the-counter software that is commercially available to the public).

**5.3 Litigation.** Except as disclosed (i) on the Perfection Certificates, or (ii) in accordance with Section 6.9 hereof, there are no actions, suits, investigations, or proceedings pending or, to the knowledge of the Responsible Officers, threatened in writing by or against Borrower or any of its Subsidiaries involving more than Two Hundred Fifty Thousand Dollars (\$250,000.00).

**5.4 No Material Deterioration in Financial Condition; Financial Statements.** All consolidated financial statements for Borrower and its Subsidiaries, delivered to Collateral Agent fairly present, in conformity with GAAP, as applicable, in all material respects the consolidated financial condition of Borrower and its Subsidiaries, and the consolidated results of operations of Borrower and its Subsidiaries. There has not been any material deterioration in the consolidated financial condition of Borrower and its Subsidiaries since the date of the most recent financial statements submitted to any Lender.

**5.5 Solvency.** Borrower is, and Borrower and each of its Subsidiaries, taken as a whole, are, Solvent.

**5.6 Regulatory Compliance.** Neither Borrower nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Neither Borrower nor any of its Subsidiaries is engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower and each of its Subsidiaries has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" as each term is defined and used in the Public Utility Holding Company Act of 2005. Neither Borrower nor any of its Subsidiaries has violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a Material Adverse Change. Neither Borrower's nor any of its Subsidiaries' properties or assets has been used by Borrower or such Subsidiary or, to Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than in material compliance with applicable laws. Borrower and each of its Subsidiaries has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted.

None of Borrower, any of its Subsidiaries, or any of Borrower's or its Subsidiaries' Affiliates or any of their respective agents acting or benefiting in any capacity in connection with the transactions contemplated by this Agreement is (i) in violation of any Anti-Terrorism Law, (ii) engaging in or conspiring to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law, or (iii) is a Blocked Person. None of Borrower, any of its Subsidiaries, or to the knowledge of Borrower and any of their Affiliates or agents, acting or benefiting in any capacity in connection with the transactions contemplated by this Agreement, (x) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (y) deals in, or otherwise engages in any transaction relating to, any property or interest in property blocked pursuant to Executive Order No. 13224, any similar executive order or other Anti-Terrorism Law.

**5.7 Investments.** Neither Borrower nor any of its Subsidiaries owns any stock, shares, partnership interests or other equity securities except for Permitted Investments.

**5.8 Tax Returns and Payments; Pension Contributions.** Borrower and each of its Subsidiaries has timely filed all required tax returns and reports, and Borrower and each of its Subsidiaries, has timely paid all foreign, federal, state, and local taxes, assessments, deposits and contributions owed by Borrower and such Subsidiaries, in all jurisdictions in which Borrower or any such Subsidiary is subject to taxes, including the United States, unless such taxes are being contested in accordance with the following sentence or unless such unpaid state and/or local taxes do not exceed \$25,000 in the aggregate. Borrower and each of its Subsidiaries, may defer payment of any contested taxes, provided that Borrower or such Subsidiary, (a) in good faith contests its obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies Collateral Agent in writing of the commencement of, and any material development in, the proceedings, and (c) posts bonds or takes any other steps required to prevent the Governmental Authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "**Permitted Lien.**" Neither Borrower nor any of its Subsidiaries is aware of any claims or adjustments proposed for any of Borrower's or such Subsidiaries', prior tax years which could result in additional taxes becoming due and payable by Borrower or its Subsidiaries. Borrower and each of its Subsidiaries have paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and neither Borrower nor any of its Subsidiaries have, withdrawn from participation in, and have not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower or its Subsidiaries, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other Governmental Authority.

**5.9 Use of Proceeds.** Borrower shall use the proceeds of the Credit Extensions solely as working capital and to fund its general business requirements in accordance with the provisions of this Agreement, and not for personal, family, household or agricultural purposes.

**5.10 Shares.** Borrower has full power and authority to create a first lien on the Shares and no disability or contractual obligation exists that would prohibit Borrower from pledging the Shares pursuant to this Agreement. To Borrower's knowledge, there are no subscriptions, warrants, rights of first refusal or other restrictions on transfer relative to, or options exercisable with respect to the Shares. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. To Borrower's knowledge, the Shares are not the subject of any present or threatened suit, action, arbitration, administrative or other proceeding, and Borrower knows of no reasonable grounds for the institution of any such proceedings.

**5.11 Full Disclosure.** No written representation, warranty or other statement of Borrower or any of its Subsidiaries in any certificate or written statement given to Collateral Agent or any Lender in connection with the transactions contemplated hereby, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Collateral Agent or any Lender with respect to the transactions contemplated hereby, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

**5.12 Definition of "Knowledge."** For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of the Responsible Officers.

6. **AFFIRMATIVE COVENANTS**

Borrower shall, and shall cause each of its Subsidiaries to, do all of the following:

**6.1 Government Compliance.**

(a) Maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of organization and maintain qualification in each jurisdiction in which the failure to so qualify could reasonably be expected to have a Material Adverse Change. Comply with all laws, ordinances and regulations to which Borrower or any of its Subsidiaries is subject, the noncompliance with which could reasonably be expected to have a Material Adverse Change.

(b) Obtain and keep in full force and effect, all of the material Governmental Approvals necessary for the performance by Borrower and its Subsidiaries of their respective businesses and obligations under the Loan Documents and the grant of a security interest to Collateral Agent for the ratable benefit of the Lenders, in all of the Collateral. Borrower shall promptly provide copies to Collateral Agent of any material Governmental Approvals obtained by Borrower or any of its Subsidiaries.

**6.2 Financial Statements, Reports, Certificates.**

(a) Deliver to each Lender:

(i) as soon as available, but no later than thirty (30) days after the last day of each month, a company prepared consolidated and consolidating balance sheet, income statement and cash flow statement covering the consolidated operations of Borrower and its Subsidiaries for such month certified by a Responsible Officer as being fairly stated in all material respects (subject to normal year-end GAAP and audit adjustments and the absence of footnotes) and in a form reasonably acceptable to Collateral Agent;

(ii) as soon as available, but no later than two hundred ten (210) days after the last day of Borrower's fiscal year (and three hundred sixty-five (365) days after the last day of Borrower's fiscal year ending December 31, 2016) or within five (5) days of filing with the SEC, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion (other than a going-concern qualification typical for venture backed companies similar to Borrower) on the financial statements from an independent certified public accounting firm;

(iii) as soon as available after approval thereof by Borrower's Board of Directors, but no later than thirty (30) days after the last day of each of Borrower's fiscal years, Borrower's annual financial projections for the entire current fiscal year as approved by Borrower's Board of Directors, which such annual financial projections shall be set forth in a month-by-month format (such annual financial projections delivered under this Section 6.3(a)(iii) to Collateral Agent and the Lenders are referred to herein as the "**Annual Projections**"; provided that, any revisions of the Annual Projections approved by Borrower's Board of Directors shall be delivered to Collateral Agent and the Lenders no later than seven (7) days after such approval);

(iv) within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or holders of Subordinated Debt;

(v) in the event (and during the period) that Borrower becomes subject to the reporting requirements under the Securities Exchange Act of 1934, as amended, within five (5) days of filing, all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission,

(vi) Borrower shall prompt notice of any material amendments of or other material changes to the capitalization table of Borrower and any amendments of or other changes to the Operating Documents of Borrower or any of its Subsidiaries, together with any copies reflecting such amendments or changes with respect thereto;



(vii) prompt notice of any event (other than with respect to any third party) that could reasonably be expected to materially and adversely affect the value of the Intellectual Property;

(viii) as soon as available, but no later than thirty (30) days after the last day of each month, copies of the month-end account statements for each Collateral Account maintained by Borrower or its Subsidiaries, which statements may be provided to Collateral Agent and each Lender by Borrower or directly from the applicable institution(s), and

(ix) other information as reasonably requested by Collateral Agent or any Lender.

Notwithstanding the foregoing, documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the internet at Borrower's website address.

(b) Concurrently with the delivery of the financial statements specified in Section 6.2(a)(i) above but no later than thirty (30) days after the last day of each month, deliver to each Lender, a duly completed Compliance Certificate signed by a Responsible Officer.

(c) Keep proper books of record and account in accordance with GAAP in all material respects (except for interim and unaudited financial statements), in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities. Borrower shall, and shall cause each of its Subsidiaries to, allow, at the sole cost of Borrower, Collateral Agent or any Lender, during regular business hours upon reasonable prior notice (provided that no notice shall be required when an Event of Default has occurred and is continuing), to visit and inspect any of its properties, to examine and make abstracts or copies from any of its books and records, and to conduct a collateral audit and analysis of its operations and the Collateral. Such audits shall be conducted no more often than twice every year unless (and more frequently if) an Event of Default has occurred and is continuing.

**6.3 Inventory; Returns.** Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower, or any of its Subsidiaries, and their respective Account Debtors shall follow Borrower's, or such Subsidiary's, customary practices as they exist at the Effective Date. Borrower must promptly notify Collateral Agent and the Lenders of all returns, recoveries, disputes and claims that involve more than Two Hundred Fifty Thousand Dollars (\$250,000.00) individually or in the aggregate in any calendar year.

**6.4 Taxes; Pensions.** Timely file and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely file, all foreign, federal, state, and local taxes, assessments, deposits and contributions owed by Borrower or its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.8 hereof, and shall deliver to Lenders, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with the terms of such plans.

**6.5 Insurance.** Keep Borrower's and its Subsidiaries' business and the Collateral insured for risks and in amounts standard for companies in Borrower's and its Subsidiaries' industry and location and as Collateral Agent may reasonably request. Insurance policies shall be in a form, with companies, and in amounts that are reasonably satisfactory to Collateral Agent and Lenders. All property policies shall have a lender's loss payable endorsement showing Collateral Agent as lender loss payee and waive subrogation against Collateral Agent, and all liability policies shall show, or have endorsements showing, Collateral Agent, as additional insured. The Collateral Agent shall be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral, and each provider of any such insurance agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to the Collateral Agent, that it will give the Collateral Agent thirty (30) days prior written notice before any such policy or policies shall be materially altered or canceled; provide that in the event that any provider of any such insurance refuses to give the Collateral Agent thirty (30) days prior written notice before any such policy or policies shall be materially altered or canceled, then Borrower shall (i) give the Collateral Agent twenty (20) days prior written notice before Borrower initiates any material alteration or cancels any such policy or policies, and (ii) immediately give the Collateral Agent written

notice upon obtaining knowledge that any such policy or policies shall be materially altered or canceled by a provider of any such insurance. At Collateral Agent's request, Borrower shall deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy shall, at Collateral Agent's option, be payable to Collateral Agent, for the ratable benefit of the Lenders, on account of the Obligations. Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, Borrower shall have the option of applying the proceeds of any casualty policy up to Two Hundred Fifty Thousand Dollars (\$250,000.00) with respect to any loss, but not exceeding Five Hundred Thousand Dollars (\$500,000.00), in the aggregate for all losses under all casualty policies in any one year, toward the replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property (i) shall be of equal or like value as the replaced or repaired Collateral and (ii) shall be deemed Collateral in which Collateral Agent has been granted a first priority security interest, and (b) after the occurrence and during the continuance of an Event of Default, all proceeds payable under such casualty policy shall, at the option of Collateral Agent, be payable to Collateral Agent, for the ratable benefit of the Lenders, on account of the Obligations. If Borrower or any of its Subsidiaries fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons, Collateral Agent and/or any Lender may make, at Borrower's expense, all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies Collateral Agent or such Lender deems prudent.

#### **6.6 Operating Accounts.**

(a) Maintain all of Borrower's and its Subsidiaries' Collateral Accounts with Bank or its Affiliates in accounts which are subject to a Control Agreement in favor of Collateral Agent.

(b) Borrower shall provide Collateral Agent five (5) days' prior written notice before Borrower or any of its Subsidiaries establishes any Collateral Account at or with any Person other than Bank or its Affiliates. In addition, subject to the terms of the Post Closing Letter for each Collateral Account that Borrower or any of its Subsidiaries, at any time maintains, Borrower or such Subsidiary shall cause the applicable bank or financial institution at or with which such Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Collateral Agent's Lien in such Collateral Account in accordance with the terms hereunder prior to the establishment of such Collateral Account, which Control Agreement may not be terminated without prior written consent of Collateral Agent. The provisions of the previous sentence shall not apply to deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's, or any of its Subsidiaries', employees and identified to Collateral Agent by Borrower as such in the Perfection Certificates as may be updated after the Effective Date subject to the review and approval of Collateral Agent.

(c) Neither Borrower nor any of its Subsidiaries shall maintain any Collateral Accounts except Collateral Accounts maintained in accordance with Sections 6.6(a) and (b).

**6.7 Protection of Intellectual Property Rights.** Borrower and each of its Subsidiaries shall: (a) use commercially reasonable efforts consistent with current business practices to protect, defend and maintain the validity and enforceability of its Intellectual Property that is material to Borrower's business; (b) promptly after Borrower becomes aware thereof advise Collateral Agent in writing of material infringement by a third party of its Intellectual Property that is material to Borrower's business; and (c) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Collateral Agent's prior written consent, provided, however, Borrower may abandon, modify or delay filing, prosecution or issuance of any immaterial Intellectual Property without Collateral Agent's prior written consent if Borrower determines in its reasonable discretion that further prosecution of such application is not commercially reasonable, and provides Collateral Agent with prompt written notice of the same.

**6.8 Litigation Cooperation.** Commencing on the Effective Date and continuing through the termination of this Agreement, make available to Collateral Agent and the Lenders, without expense to Collateral Agent or the Lenders at reasonable times and with reasonable advance notice, Borrower and each of Borrower's officers, employees and agents and Borrower's Books, to the extent that Collateral Agent or any Lender may reasonably deem them necessary to prosecute or defend any third-party suit or proceeding instituted by or against Collateral Agent or any Lender with respect to any Collateral or relating to Borrower. In such event, Collateral Agent and the Lenders shall work cooperatively with Borrower to minimize disruption, to the extent reasonably possible, of Borrower's ongoing operations.

**6.9 Notices of Litigation and Default.** Borrower will give prompt written notice to Collateral Agent and the Lenders of any litigation or governmental proceedings pending or threatened (in writing) against Borrower or any of its Subsidiaries, which could reasonably be expected to result in damages or costs to Borrower or any of its Subsidiaries of Two Hundred Fifty Thousand Dollars (\$250,000.00) or more or which could reasonably be expected to have a Material Adverse Change. Without limiting or contradicting any other more specific provision of this Agreement, promptly (and in any event within three (3) Business Days) upon Borrower becoming aware of the existence of any Event of Default or event which, with the giving of notice or passage of time, or both, would constitute an Event of Default, Borrower shall give written notice to Collateral Agent and the Lenders of such occurrence, which such notice shall include a reasonably detailed description of such Event of Default or event which, with the giving of notice or passage of time, or both, would constitute an Event of Default.

**6.10 Financial Covenant.** For so long as the Celgene Negative Pledge and Amendment Agreement remains in effect, Borrower shall maintain at all times a minimum aggregate available cash balance of Seven Million Five Hundred Thousand Dollars (\$7,500,000) in Collateral Accounts (excluding any restricted accounts) with Bank or its Affiliates which are subject to Control Agreements in favor of Collateral Agent.

**6.11 Landlord Waivers; Bailee Waivers.** In the event that Borrower or any of its Subsidiaries, after the Effective Date, intends to add any new offices or business locations, including warehouses, or otherwise store any portion of the Collateral with, or deliver any portion of the Collateral to, a bailee, in each case pursuant to Section 7.2, then Borrower or such Subsidiary will first receive the written consent of Collateral Agent (unless the new location is not the chief executive office of Borrower or such Subsidiary or the Collateral at such new location is not valued in excess of Two Hundred Fifty Thousand (\$250,000.00) in the aggregate, and then Borrower or such Subsidiary shall only be required to provide Collateral Agent with written notice of such new location with thirty (30) days of the addition of such new location as an office or business location) and, in the event that the new location is the chief executive office of Borrower or such Subsidiary or the Collateral at any such new location is valued in excess of Two Hundred Fifty Thousand (\$250,000.00) in the aggregate, such bailee or landlord, as applicable, must execute and deliver a bailee waiver or landlord waiver, as applicable, in form and substance reasonably satisfactory to Collateral Agent prior to the addition of any new offices or business locations, or any such storage with or delivery to any such bailee, as the case may be.

**6.12 Creation/Acquisition of Subsidiaries.** In the event Borrower, or any of its Subsidiaries creates or acquires any Subsidiary, Borrower shall provide prior written notice to Collateral Agent and each Lender of the creation or acquisition of such new Subsidiary and take all such action as may be reasonably required by Collateral Agent or any Lender to cause each such Subsidiary to become a co-Borrower hereunder or to guarantee the Obligations of Borrower under the Loan Documents and, in each case, grant a continuing pledge and security interest in and to the assets of such Subsidiary (substantially as described on Exhibit A hereto); and Borrower (or its Subsidiary, as applicable) shall grant and pledge to Collateral Agent, for the ratable benefit of the Lenders, a perfected security interest in the Shares of each such newly created Subsidiary; provided, however, that solely in the circumstance in which Borrower or any Subsidiary creates or acquires a Foreign Subsidiary in an acquisition permitted by Section 7.7 hereof or otherwise approved by the Required Lenders, (i) such Foreign Subsidiary shall not be required to become a co-Borrower hereunder, guarantee the Obligations of Borrower under the Loan Documents and grant a continuing pledge and security interest in and to the assets of such Foreign Subsidiary, and (ii) Borrower shall not be required to grant and pledge to Collateral Agent, for the ratable benefit of Lenders, a perfected security interest in more than sixty-five percent (65%) of the Shares of such Foreign Subsidiary, if Borrower demonstrates to the reasonable satisfaction of Collateral Agent that such Foreign Subsidiary providing such guarantee or pledge and security interest or Borrower providing a perfected security interest in more than sixty-five percent (65%) of the Shares would create a present and existing adverse tax consequence to Borrower under the U.S. Internal Revenue Code.

### 6.13 Further Assurances.

(a) Execute any further instruments and take further action as Collateral Agent or any Lender reasonably requests to perfect or continue Collateral Agent's Lien in the Collateral or to effect the purposes of this Agreement.

(b) Deliver to Collateral Agent and Lenders, within five (5) days after the same are sent or received, copies of all material correspondence, reports, documents and other filings with any Governmental Authority that could reasonably be expected to have a material adverse effect on any of the Governmental Approvals material to Borrower's business or otherwise could reasonably be expected to have a Material Adverse Change.

## 7. NEGATIVE COVENANTS

Borrower shall not, and shall not permit any of its Subsidiaries to, do any of the following without the prior written consent of the Required Lenders:

**7.1 Dispositions.** Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn out or obsolete Equipment; (c) of property by the Borrower to a Subsidiary that is a Guarantor; (d) in connection with Permitted Assignments, Permitted Liens, Permitted Investments and Permitted Licenses; and (e) Transfers in the ordinary course of business of Borrower, or its Subsidiaries, in addition to those specifically enumerated above, to the extent the same are specifically reflected in the Annual Projections and not otherwise prohibited by the terms of this Agreement or any other Loan Document.

**7.2 Changes in Business, Management, Ownership, or Business Locations.** (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses engaged in by Borrower as of the Effective Date or reasonably related thereto; (b) liquidate or dissolve; or (c) (i) any Key Person shall cease to be actively engaged in the management of Borrower unless written notice thereof is provided to Collateral Agent within five (5) Business Days of such change, or (ii) enter into any transaction or series of related transactions in which the stockholders of Borrower who were not stockholders immediately prior to the first such transaction own more than forty nine percent (49%) of the voting stock of Borrower immediately after giving effect to such transaction or related series of such transactions (other than by the sale of Borrower's equity securities in a public offering, a private placement of public equity or to venture capital investors so long as Borrower identifies to Collateral Agent the venture capital investors prior to the closing of the transaction). Borrower shall not, without at least thirty (30) days' prior written notice to Collateral Agent: (A) add any new offices or business locations, including warehouses (unless such new offices or business locations (i) contain less than Two Hundred Fifty Thousand Dollars (\$250,000.00) in assets or property of Borrower or any of its Subsidiaries and (ii) are not Borrower's or its Subsidiaries' chief executive office); (B) change its jurisdiction of organization, (C) change its organizational structure or type, (D) change its legal name, or (E) change any organizational number (if any) assigned by its jurisdiction of organization.

**7.3 Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock, shares or property of another Person. A Subsidiary may merge or consolidate into another Subsidiary (provided such surviving Subsidiary is a "co-Borrower" hereunder or has provided a secured Guaranty of Borrower's Obligations hereunder) or with (or into) Borrower provided Borrower is the surviving legal entity, and as long as no Event of Default is occurring prior thereto or arises as a result therefrom. Without limiting the foregoing, Borrower shall not, without Collateral Agent's prior written consent, enter into any binding contractual arrangement with any Person to attempt to facilitate a merger or acquisition of Borrower, unless (i) no Event of Default exists when such agreement is entered into by Borrower, (ii) such agreement does not give such Person the right to claim any fees, payments or damages from Borrower in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00), and (iii) Borrower notifies Collateral Agent in advance of entering into such an agreement.

**7.4 Indebtedness.** Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

**7.5 Encumbrance.** Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted herein (except for Permitted Liens that are permitted by the terms of this Agreement to have priority over Collateral Agent's Lien), or enter into any agreement, document, instrument or other arrangement (except with or in favor of Collateral Agent, for the ratable benefit of the Lenders) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower, or any of its Subsidiaries, from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or such Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of "**Permitted Liens**" herein or in the Celgene Negative Pledge and Amendment Agreement.

**7.6 Maintenance of Collateral Accounts.** Maintain any Collateral Account except pursuant to the terms of Section 6.6 hereof.

**7.7 Distributions; Investments.** (a) Pay any dividends (other than dividends payable solely in capital stock) or make any distribution or payment in respect of or redeem, retire or purchase any capital stock (other than repurchases (x) made pursuant to the terms of employee stock purchase plans, employee restricted stock agreements, stockholder rights plans, director or consultant stock option plans, or similar plans, provided such repurchases do not exceed One Hundred Fifty Thousand Dollars (\$250,000.00) in the aggregate per fiscal year, (y) that are deemed to occur upon exercise of stock options or warrants if such equity interests represents a portion of the exercise price or such options or warrants, or (z) that are deemed to occur upon the withholding of a portion of the equity interests granted or awarded to a current or former officer, director, employee or consultant to pay for the taxes payable by such Person upon such grant or award (or upon vesting thereof), or (b) directly or indirectly make any Investment other than Permitted Investments, or permit any of its Subsidiaries to do so.

**7.8 Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower or any of its Subsidiaries, except for (a) transactions that are in the ordinary course of Borrower's or such Subsidiary's business, upon fair and reasonable terms that are no less favorable to Borrower or such Subsidiary than would be obtained in an arm's length transaction with a non-affiliated Person, and (b) Subordinated Debt or equity investments by Borrower's investors in Borrower or its Subsidiaries.

**7.9 Subordinated Debt.** (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof or adversely affect the subordination thereof to Obligations owed to the Lenders.

**7.10 Compliance.** Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a Material Adverse Change, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower or any of its Subsidiaries, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other Governmental Authority.

**7.11 Compliance with Anti-Terrorism Laws.** Collateral Agent hereby notifies Borrower and each of its Subsidiaries that pursuant to the requirements of Anti-Terrorism Laws, and Collateral Agent's policies and practices, Collateral Agent is required to obtain, verify and record certain information and documentation that identifies Borrower and each of its Subsidiaries and their principals, which information includes the name and address of Borrower and each of its Subsidiaries and their principals and such other information that will allow Collateral Agent to identify such party in accordance with Anti-Terrorism Laws. Neither Borrower nor any of its Subsidiaries shall, nor shall Borrower or any of its Subsidiaries permit any Affiliate to, directly or indirectly,

knowingly enter into any documents, instruments, agreements or contracts with any Person listed on the OFAC Lists. Borrower and each of its Subsidiaries shall immediately notify Collateral Agent if Borrower or such Subsidiary has knowledge that Borrower, or any Subsidiary or Affiliate of Borrower, is listed on the OFAC Lists or (a) is convicted on, (b) pleads *nolo contendere* to, (c) is indicted on, or (d) is arraigned and held over on charges involving money laundering or predicate crimes to money laundering. Neither Borrower nor any of its Subsidiaries shall, nor shall Borrower or any of its Subsidiaries, permit any Affiliate to, directly or indirectly, (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including, without limitation, the making or receiving of any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224 or any similar executive order or other Anti-Terrorism Law, or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in Executive Order No. 13224 or other Anti-Terrorism Law.

## **8. EVENTS OF DEFAULT**

Any one of the following shall constitute an event of default (an “**Event of Default**”) under this Agreement:

**8.1 Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day grace period shall not apply to payments due on the Maturity Date or the date of acceleration pursuant to Section 9.1 (a) hereof). During the cure period, the failure to cure the payment default is not an Event of Default (but no Credit Extension will be made during the cure period);

### **8.2 Covenant Default.**

(a) Borrower or any of its Subsidiaries fails or neglects to perform any obligation in Sections 6.2 (Financial Statements, Reports, Certificates), 6.4 (Taxes), 6.5 (Insurance), 6.6 (Operating Accounts), 6.7 (Protection of Intellectual Property Rights), 6.9 (Notice of Litigation and Default), 6.10 (Financial Covenant), 6.12 (Creation/Acquisition of Subsidiaries) or 6.13 (Further Assurances) or Borrower violates any covenant in Section 7; or

(b) Borrower, or any of its Subsidiaries, fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Grace periods provided under this Section shall not apply, among other things, to financial covenants or any other covenants set forth in subsection (a) above;

**8.3 Material Adverse Change.** A Material Adverse Change occurs;

### **8.4 Attachment; Levy; Restraint on Business.**

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or any of its Subsidiaries or of any entity under control of Borrower or its Subsidiaries on deposit with any Lender or any Lender’s Affiliate or any bank or other institution at which Borrower or any of its Subsidiaries maintains a Collateral Account, or (ii) a notice of lien, levy, or assessment is filed against Borrower or any of its Subsidiaries or their respective assets by any government agency, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; and

(b) (i) any material portion of Borrower's or any of its Subsidiaries' assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower or any of its Subsidiaries from conducting any part of its business;

**8.5 Insolvency.** (a) Borrower or any of its Subsidiaries is or becomes Insolvent; (b) Borrower or any of its Subsidiaries begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower or any of its Subsidiaries and not dismissed or stayed within forty-five (45) days (but no Credit Extensions shall be made while Borrower or any Subsidiary is Insolvent and/or until any Insolvency Proceeding is dismissed);

**8.6 Other Agreements.** There is a default in any agreement to which Borrower or any of its Subsidiaries is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00) or that could reasonably be expected to have a Material Adverse Change;

**8.7 Judgments.** One or more judgments, orders, or decrees for the payment of money in an amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand Dollars (\$250,000.00) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower or any of its Subsidiaries and shall remain unsatisfied, unvacated, or unstayed for a period of ten (10) days after the entry thereof (provided that no Credit Extensions will be made prior to the satisfaction, vacation, or stay of such judgment, order or decree);

**8.8 Misrepresentations.** Borrower or any of its Subsidiaries or any Person acting for Borrower or any of its Subsidiaries makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Collateral Agent and/or Lenders or to induce Collateral Agent and/or the Lenders to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

**8.9 Subordinated Debt.** A default or breach occurs under any agreement between Borrower or any of its Subsidiaries and any creditor of Borrower or any of its Subsidiaries that signed a subordination, intercreditor, or other similar agreement with Collateral Agent or the Lenders, or any creditor that has signed such an agreement with Collateral Agent or the Lenders breaches any terms of such agreement;

**8.10 Guaranty.** (a) Any Guaranty terminates or ceases for any reason to be in full force and effect; (b) any Guarantor does not perform any obligation or covenant under any Guaranty; (c) any circumstance described in Sections 8.3, 8.4, 8.5, 8.7, or 8.8 occurs with respect to any Guarantor, or (d) the liquidation, winding up, or termination of existence of any Guarantor;

**8.11 Governmental Approvals.** Any Governmental Approval shall have been revoked, rescinded, suspended, modified in an adverse manner, or not renewed in the ordinary course for a full term *and* such revocation, rescission, suspension, modification or non-renewal has resulted in or could reasonably be expected to result in a Material Adverse Change; or

**8.12 Lien Priority.** Any Lien created hereunder or by any other Loan Document shall at any time fail to constitute a valid and perfected Lien on any of the Collateral purported to be secured thereby, subject to no prior or equal Lien, other than Permitted Liens which are permitted to have priority in accordance with the terms of this Agreement.

## **9. RIGHTS AND REMEDIES**

### **9.1 Rights and Remedies.**

(a) Upon the occurrence and during the continuance of an Event of Default, Collateral Agent may, and at the written direction of Required Lenders shall, without notice or demand, do any or all of the following: (i) deliver notice of the Event of Default to Borrower, (ii) by notice to Borrower declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations shall be

immediately due and payable without any action by Collateral Agent or the Lenders) or (iii) by notice to Borrower suspend or terminate the obligations, if any, of the Lenders to advance money or extend credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Collateral Agent and/or the Lenders (but if an Event of Default described in Section 8.5 occurs all obligations, if any, of the Lenders to advance money or extend credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Collateral Agent and/or the Lenders shall be immediately terminated without any action by Collateral Agent or the Lenders).

(b) Without limiting the rights of Collateral Agent and the Lenders set forth in Section 9.1(a) above, upon the occurrence and during the continuance of an Event of Default, Collateral Agent shall have the right, without notice or demand, to do any or all of the following:

(i) foreclose upon and/or sell or otherwise liquidate, the Collateral;

(ii) apply to the Obligations any (a) balances and deposits of Borrower that Collateral Agent or any Lender holds or controls, or (b) any amount held or controlled by Collateral Agent or any Lender owing to or for the credit or the account of Borrower; and/or

(iii) commence and prosecute an Insolvency Proceeding or consent to Borrower commencing any Insolvency Proceeding.

(c) Without limiting the rights of Collateral Agent and the Lenders set forth in Sections 9.1(a) and (b) above, upon the occurrence and during the continuance of an Event of Default, Collateral Agent shall have the right, without notice or demand, to do any or all of the following:

(i) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Collateral Agent considers advisable, notify any Person owing Borrower money of Collateral Agent's security interest in such funds, and verify the amount of such account;

(ii) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Collateral Agent requests and make it available in a location as Collateral Agent reasonably designates. Collateral Agent may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Collateral Agent a license to enter and occupy any of its premises, without charge, to exercise any of Collateral Agent's rights or remedies;

(iii) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, and/or advertise for sale, the Collateral. Collateral Agent is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's and each of its Subsidiaries' labels, patents, copyrights, mask works, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Collateral Agent's exercise of its rights under this Section 9.1, Borrower's and each of its Subsidiaries' rights under all licenses and all franchise agreements inure to Collateral Agent, for the benefit of the Lenders;

(iv) place a "hold" on any account maintained with Collateral Agent or the Lenders and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(v) demand and receive possession of Borrower's Books;

(vi) appoint a receiver to seize, manage and realize any of the Collateral, and such receiver shall have any right and authority as any competent court will grant or authorize in accordance with any applicable law, including any power or authority to manage the business of Borrower or any of its Subsidiaries;



(vii) subject to clauses 9.1(a) and (b), exercise all rights and remedies available to Collateral Agent and each Lender under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof);

(viii) for any Letters of Credit, demand that Borrower (i) deposit cash with Bank in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then one hundred five percent (105%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then one hundred ten percent (110%), of the Dollar Equivalent of the aggregate face amount of all Letters of Credit remaining undrawn (plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit; and

(ix) terminate any FX Contracts.

Notwithstanding any provision of this Section 9.1 to the contrary, upon the occurrence of any Event of Default, Collateral Agent shall have the right to exercise any and all remedies referenced in this Section 9.1 without the written consent of Required Lenders following the occurrence of an Exigent Circumstance. As used in the immediately preceding sentence, “**Exigent Circumstance**” means any event or circumstance that, in the reasonable judgment of Collateral Agent, imminently threatens the ability of Collateral Agent to realize upon all or any material portion of the Collateral, such as, without limitation, fraudulent removal, concealment, or abscondment thereof, destruction or material waste thereof, or failure of Borrower or any of its Subsidiaries after reasonable demand to maintain or reinstate adequate casualty insurance coverage, or which, in the judgment of Collateral Agent, could reasonably be expected to result in a material diminution in value of the Collateral. Notwithstanding any provision of this Agreement or any of the Loan Documents to the contrary, for so long as Celgene Corporation’s existing collaboration and license agreement (referring specifically to the agreement in effect since September 26, 2014) with Borrower remains in effect, Collateral Agent shall not exercise any of its rights or remedies with respect to any Collateral located at 870 and 894 Industrial Road, San Carlos, CA 94070, for a period of five (5) Business Days following the occurrence of any Event of Default (other than an Event of Default described in Section 8.5).

**9.2 Power of Attorney.** Borrower hereby irrevocably appoints Collateral Agent as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower’s or any of its Subsidiaries’ name on any checks or other forms of payment or security; (b) sign Borrower’s or any of its Subsidiaries’ name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Collateral Agent determines reasonable; (d) make, settle, and adjust all claims under Borrower’s insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Collateral Agent or a third party as the Code or any applicable law permits. Borrower hereby appoints Collateral Agent as its lawful attorney-in-fact to sign Borrower’s or any of its Subsidiaries’ name on any documents necessary to perfect or continue the perfection of Collateral Agent’s security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations (other than inchoate indemnity obligations) have been satisfied in full and Collateral Agent and the Lenders are under no further obligation to make Credit Extensions hereunder. Collateral Agent’s foregoing appointment as Borrower’s or any of its Subsidiaries’ attorney in fact, and all of Collateral Agent’s rights and powers, coupled with an interest, are irrevocable until all Obligations (other than inchoate indemnity obligations) have been fully repaid and performed and Collateral Agent’s and the Lenders’ obligation to provide Credit Extensions terminates.

**9.3 Protective Payments.** If Borrower or any of its Subsidiaries fail to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower or any of its Subsidiaries is obligated to pay under this Agreement or any other Loan Document, Collateral Agent may obtain such insurance or make such payment, and all amounts so paid by Collateral Agent are Lenders’ Expenses and immediately due and payable, bearing interest at the Default Rate, and secured by the Collateral. Collateral Agent will make reasonable efforts to provide Borrower with notice of Collateral Agent obtaining such insurance or making such payment at the time it is obtained or paid or within a reasonable time thereafter. No such payments by Collateral Agent are deemed an agreement to make similar payments in the future or Collateral Agent’s waiver of any Event of Default.

**9.4 Application of Payments and Proceeds.** Notwithstanding anything to the contrary contained in this Agreement, upon the occurrence and during the continuance of an Event of Default, (a) Borrower irrevocably waives the right to direct the application of any and all payments at any time or times thereafter received by Collateral Agent from or on behalf of Borrower or any of its Subsidiaries of all or any part of the Obligations, and, as between Borrower on the one hand and Collateral Agent and Lenders on the other, Collateral Agent shall have the continuing and exclusive right to apply and to reapply any and all payments received against the Obligations in such manner as Collateral Agent may deem advisable notwithstanding any previous application by Collateral Agent, and (b) the proceeds of any sale of, or other realization upon all or any part of the Collateral shall be applied: first, to the Lenders' Expenses; second, to accrued and unpaid interest on the Obligations (including any interest which, but for the provisions of the United States Bankruptcy Code, would have accrued on such amounts); third, to the principal amount of the Obligations outstanding; and fourth, to any other indebtedness or obligations of Borrower owing to Collateral Agent or any Lender under the Loan Documents. Any balance remaining shall be delivered to Borrower or to whoever may be lawfully entitled to receive such balance or as a court of competent jurisdiction may direct. In carrying out the foregoing, (x) amounts received shall be applied in the numerical order provided until exhausted prior to the application to the next succeeding category, and (y) each of the Persons entitled to receive a payment in any particular category shall receive an amount equal to its pro rata share of amounts available to be applied pursuant thereto for such category. Any reference in this Agreement to an allocation between or sharing by the Lenders of any right, interest or obligation "ratably," "proportionally" or in similar terms shall refer to Pro Rata Share unless expressly provided otherwise. Collateral Agent, or if applicable, each Lender, shall promptly remit to the other Lenders such sums as may be necessary to ensure the ratable repayment of each Lender's portion of any Term Loan and the ratable distribution of interest, fees and reimbursements paid or made by Borrower. Notwithstanding the foregoing, a Lender receiving a scheduled payment shall not be responsible for determining whether the other Lenders also received their scheduled payment on such date; provided, however, if it is later determined that a Lender received more than its ratable share of scheduled payments made on any date or dates, then such Lender shall remit to Collateral Agent or other Lenders such sums as may be necessary to ensure the ratable payment of such scheduled payments, as instructed by Collateral Agent. If any payment or distribution of any kind or character, whether in cash, properties or securities, shall be received by a Lender in excess of its ratable share, then the portion of such payment or distribution in excess of such Lender's ratable share shall be received by such Lender in trust for and shall be promptly paid over to the other Lender for application to the payments of amounts due on the other Lenders' claims. To the extent any payment for the account of Borrower is required to be returned as a voidable transfer or otherwise, the Lenders shall contribute to one another as is necessary to ensure that such return of payment is on a pro rata basis. If any Lender shall obtain possession of any Collateral, it shall hold such Collateral for itself and as agent and bailee for Collateral Agent and other Lenders for purposes of perfecting Collateral Agent's security interest therein.

**9.5 Liability for Collateral.** So long as Collateral Agent and the Lenders comply with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Collateral Agent and the Lenders, Collateral Agent and the Lenders shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

**9.6 No Waiver; Remedies Cumulative.** Failure by Collateral Agent or any Lender, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Collateral Agent or any Lender thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by Collateral Agent and the Required Lenders and then is only effective for the specific instance and purpose for which it is given. The rights and remedies of Collateral Agent and the Lenders under this Agreement and the other Loan Documents are cumulative. Collateral Agent and the Lenders have all rights and remedies provided under the Code, any applicable law, by law, or in equity. The exercise by Collateral Agent or any Lender of one right or remedy is not an election, and Collateral Agent's or any Lender's waiver of any Event of Default is not a continuing waiver. Collateral Agent's or any Lender's delay in exercising any remedy is not a waiver, election, or acquiescence.

**9.7 Demand Waiver.** Borrower waives, to the fullest extent permitted by law, demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Collateral Agent or any Lender on which Borrower or any Subsidiary is liable.

**10. NOTICES**

All notices, consents, requests, approvals, demands, or other communication (collectively, "**Communication**") by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by facsimile transmission; (c) upon delivery, when sent by email mail, (d) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (e) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Any of Collateral Agent, Lender or Borrower may change its mailing address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower:	Sutro Biopharma, Inc. 310 Utah Street, Suite 150 South San Francisco, CA 94080 Attn: Edward Albini Email:
with a copy (which shall not constitute notice) to:	Fenwick & West LLP 555 California Street San Francisco, CA 94104 Attn: Matthew Rossiter Fax: Email:
If to Collateral Agent:	OXFORD FINANCE LLC 133 North Fairfax Street Alexandria, Virginia 22314 Attention: Legal Department Fax: Email:
with a copy to	SILICON VALLEY BANK 3003 Tasman Drive Santa Clara, CA 95054 Attn: Derek Scalf Fax: Email:
with a copy (which shall not constitute notice) to:	Troutman Sanders LLP 401 9th Street, NW, Suite 1000 Washington, DC 20004 Attn: Charles Charpentier Fax: Email:

## **11. CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER, AND JUDICIAL REFERENCE**

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower, Collateral Agent and each Lender each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Collateral Agent or any Lender from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Collateral Agent or any Lender. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

**TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER, COLLATERAL AGENT AND EACH LENDER EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.**

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

## **12. GENERAL PROVISIONS**

**12.1 Successors and Assigns.** This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not transfer, pledge or assign this Agreement or any rights or obligations under it without Collateral Agent's and each Lender's prior written consent (which may be granted or withheld in Collateral Agent's and each Lender's discretion, subject to Section 12.6). The Lenders have the right,

without the consent of or notice to Borrower, to sell, transfer, assign, pledge, negotiate, or grant participation in (any such sale, transfer, assignment, negotiation, or grant of a participation, a “**Lender Transfer**”) all or any part of, or any interest in, the Lenders’ obligations, rights, and benefits under this Agreement and the other Loan Documents; *provided, however*, that any such Lender Transfer (other than a transfer, pledge, sale or assignment to an Eligible Assignee) of its obligations, rights, and benefits under this Agreement and the other Loan Documents shall require the prior written consent of the Required Lenders (such approved assignee, an “**Approved Lender**”). Borrower and Collateral Agent shall be entitled to continue to deal solely and directly with such Lender in connection with the interests so assigned until Collateral Agent shall have received and accepted an effective assignment agreement in form satisfactory to Collateral Agent executed, delivered and fully completed by the applicable parties thereto, and shall have received such other information regarding such Eligible Assignee or Approved Lender as Collateral Agent reasonably shall require. Notwithstanding anything to the contrary contained herein, so long as no Event of Default has occurred and is continuing, no Lender Transfer (other than a Lender Transfer (i) in respect of the Warrants or (ii) in connection with (x) assignments by a Lender due to a forced divestiture at the request of any regulatory agency; or (y) upon the occurrence of a default, event of default or similar occurrence with respect to a Lender’s own financing or securitization transactions) shall be permitted, without Borrower’s consent, to any Person which is an Affiliate or Subsidiary of Borrower, a direct competitor of Borrower or a vulture hedge fund, each as determined by Collateral Agent.

**12.2 Indemnification.** Borrower agrees to indemnify, defend and hold Collateral Agent and the Lenders and their respective directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Collateral Agent or the Lenders (each, an “**Indemnified Person**”) harmless against: (a) all obligations, demands, claims, and liabilities (collectively, “**Claims**”) asserted by any other party in connection with; related to; following; or arising from, out of or under, the transactions contemplated by the Loan Documents; and (b) all losses or Lenders’ Expenses incurred, or paid by Indemnified Person in connection with; related to; following; or arising from, out of or under, the transactions contemplated by the Loan Documents between Collateral Agent, and/or the Lenders and Borrower (including reasonable attorneys’ fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person’s gross negligence or willful misconduct. Borrower hereby further indemnifies, defends and holds each Indemnified Person harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the fees and disbursements of counsel for such Indemnified Person) in connection with any investigative, response, remedial, administrative or judicial matter or proceeding, whether or not such Indemnified Person shall be designated a party thereto and including any such proceeding initiated by or on behalf of Borrower, and the reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and any commission, fee or compensation claimed by any broker (other than any broker retained by Collateral Agent or Lenders) asserting any right to payment for the transactions contemplated hereby which may be imposed on, incurred by or asserted against such Indemnified Person as a result of or in connection with the transactions contemplated hereby and the use or intended use of the proceeds of the loan proceeds except for liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements directly caused by such Indemnified Person’s gross negligence or willful misconduct.

**12.3 Time of Essence.** Time is of the essence for the performance of all Obligations in this Agreement.

**12.4 Severability of Provisions.** Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

**12.5 Correction of Loan Documents.** Collateral Agent and the Lenders may correct patent errors and fill in any blanks in this Agreement and the other Loan Documents consistent with the agreement of the parties.

**12.6 Amendments in Writing; Integration.** (a) No amendment, modification, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, or any consent to any departure by Borrower or any of its Subsidiaries therefrom, shall in any event be effective unless the same shall be in writing and signed by Borrower, Collateral Agent and the Required Lenders provided that:

(i) no such amendment, waiver or other modification that would have the effect of increasing or reducing a Lender's Term Loan Commitment or Commitment Percentage shall be effective as to such Lender without such Lender's written consent;

(ii) no such amendment, waiver or modification that would affect the rights and duties of Collateral Agent shall be effective without Collateral Agent's written consent or signature;

(iii) no such amendment, waiver or other modification shall, unless signed by all the Lenders directly affected thereby, (A) reduce the principal of, rate of interest on or any fees with respect to any Term Loan or forgive any principal, interest (other than default interest) or fees (other than late charges) with respect to any Term Loan (B) postpone the date fixed for, or waive, any payment of principal of any Term Loan or of interest on any Term Loan (other than default interest) or any fees provided for hereunder (other than late charges or for any termination of any commitment); (C) change the definition of the term "**Required Lenders**" or the percentage of Lenders which shall be required for the Lenders to take any action hereunder; (D) release all or substantially all of any material portion of the Collateral, authorize Borrower to sell or otherwise dispose of all or substantially all or any material portion of the Collateral or release any Guarantor of all or any portion of the Obligations or its guaranty obligations with respect thereto, except, in each case with respect to this clause (D), as otherwise may be expressly permitted under this Agreement or the other Loan Documents (including in connection with any disposition permitted hereunder); (E) amend, waive or otherwise modify this Section 12.6 or the definitions of the terms used in this Section 12.6 insofar as the definitions affect the substance of this Section 12.6; (F) consent to the assignment, delegation or other transfer by Borrower of any of its rights and obligations under any Loan Document or release Borrower of its payment obligations under any Loan Document, except, in each case with respect to this clause (F), pursuant to a merger or consolidation permitted pursuant to this Agreement; (G) amend any of the provisions of Section 9.4 or amend any of the definitions of Pro Rata Share, Term Loan Commitment, Commitment Percentage or that provide for the Lenders to receive their Pro Rata Shares of any fees, payments, setoffs or proceeds of Collateral hereunder; (H) subordinate the Liens granted in favor of Collateral Agent securing the Obligations; or (I) amend any of the provisions of Section 12.10. It is hereby understood and agreed that all Lenders shall be deemed directly affected by an amendment, waiver or other modification of the type described in the preceding clauses (C), (D), (E), (F), (G) and (H) of the preceding sentence;

(iv) the provisions of the foregoing clauses (i), (ii) and (iii) are subject to the provisions of any interlender or agency agreement among the Lenders and Collateral Agent pursuant to which any Lender may agree to give its consent in connection with any amendment, waiver or modification of the Loan Documents only in the event of the unanimous agreement of all Lenders.

(b) Other than as expressly provided for in Section 12.6(a)(i)-(iii), Collateral Agent may, if requested by the Required Lenders, from time to time designate covenants in this Agreement less restrictive by notification to a representative of Borrower.

(c) This Agreement and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement and the Loan Documents merge into this Agreement and the Loan Documents.

**12.7 Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

**12.8 Survival.** All covenants, representations and warranties made in this Agreement continue in full force and effect until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been satisfied. Without limiting the foregoing, except as otherwise provided in Section 4.1, the grant of security interest by Borrower in Section 4.1 shall survive until the termination of all Bank Services Agreements. The obligation of Borrower in Section 12.2 to indemnify each Lender and Collateral Agent, as well as the confidentiality provisions in Section 12.9 below, shall survive until the statute of limitations with respect to such claim or cause of action shall have run.

**12.9 Confidentiality.** In handling any confidential information of Borrower, the Lenders and Collateral Agent shall exercise the same degree of care that it exercises for their own proprietary information, but disclosure of information may be made: (a) subject to the terms and conditions of this Agreement, to the Lenders' and Collateral Agent's Subsidiaries or Affiliates, or in connection with a Lender's own financing or securitization transactions and upon the occurrence of a default, event of default or similar occurrence with respect to such financing or securitization transaction; (b) to prospective transferees (other than those identified in (a) above) or purchasers of any interest in the Credit Extensions (provided, however, the Lenders and Collateral Agent shall, except upon the occurrence and during the continuance of an Event of Default, obtain such prospective transferee's or purchaser's agreement to the terms of this provision or to similar confidentiality terms); (c) as required by law, regulation, subpoena, or other order; (d) to Lenders' or Collateral Agent's regulators or as otherwise required in connection with an examination or audit; (e) as Collateral Agent reasonably considers appropriate in exercising remedies under the Loan Documents; and (f) to third party service providers of the Lenders and/or Collateral Agent so long as such service providers have executed a confidentiality agreement with the Lenders and Collateral Agent with terms no less restrictive than those contained herein. Confidential information does not include information that either: (i) is in the public domain or in the Lenders' and/or Collateral Agent's possession when disclosed to the Lenders and/or Collateral Agent, or becomes part of the public domain after disclosure to the Lenders and/or Collateral Agent; or (ii) is disclosed to the Lenders and/or Collateral Agent by a third party, if the Lenders and/or Collateral Agent does not know that the third party is prohibited from disclosing the information. Collateral Agent and the Lenders may use confidential information for any purpose, including, without limitation, for the development of client databases, reporting purposes, and market analysis. The provisions of the immediately preceding sentence shall survive the termination of this Agreement. The agreements provided under this Section 12.9 supersede all prior agreements, understanding, representations, warranties, and negotiations between the parties about the subject matter of this Section 12.9.

**12.10 Right of Set Off.** Borrower hereby grants to Collateral Agent and to each Lender, a lien, security interest and right of set off as security for all Obligations to Collateral Agent and each Lender hereunder, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Collateral Agent or the Lenders or any entity under the control of Collateral Agent or the Lenders (including a Collateral Agent affiliate) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Collateral Agent or the Lenders may set off the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations, provided that Collateral Agent shall use commercially reasonable efforts to promptly notify Borrower in writing of any such set-off. Notwithstanding the foregoing, in no event shall Collateral Agent's failure to notify Borrower pursuant to the foregoing sentence cause or result in any breach of this Agreement, subject Collateral Agent or any Lender to any liability or in any way limit or restrict any rights or remedies available to Collateral Agent or any Lender pursuant to this Agreement, any other Loan Document or otherwise. **ANY AND ALL RIGHTS TO REQUIRE COLLATERAL AGENT TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.**

**12.11 Silicon Valley Bank as Agent.** Collateral Agent hereby appoints Silicon Valley Bank ("**SVB**") as its agent (and SVB hereby accepts such appointment) for the purpose of perfecting Collateral Agent's Liens in assets which, in accordance with Article 8 or Article 9, as applicable, of the Code can be perfected by possession or control, including without limitation, all deposit accounts maintained at SVB.

**12.12 Cooperation of Borrower.** If necessary, Borrower agrees to (i) execute any documents (including new Secured Promissory Notes) reasonably required to effectuate and acknowledge each assignment of a Term Loan Commitment or Loan to an assignee in accordance with Section 12.1, (ii) make Borrower's management available to meet with Collateral Agent and prospective participants and assignees of Term Loan Commitments or Credit Extensions (which meetings shall be conducted no more often than twice every twelve months unless an Event of Default has occurred and is continuing), and (iii) assist Collateral Agent or the Lenders in the preparation of information relating to the financial affairs of Borrower as any prospective participant or assignee of a Term Loan Commitment or Term Loan reasonably may request. Subject to the provisions of Section 12.9, Borrower authorizes each Lender to disclose to any prospective participant or assignee of a Term Loan Commitment, any and all information in such Lender's possession concerning Borrower and its financial affairs which has been delivered to such Lender by or on behalf of Borrower pursuant to this Agreement, or which has been delivered to such Lender by or on behalf of Borrower in connection with such Lender's credit evaluation of Borrower prior to entering into this Agreement.

### 13. **DEFINITIONS**

**13.1 Definitions.** As used in this Agreement, the following terms have the following meanings:

“**Account**” is any “account” as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

“**Account Debtor**” is any “account debtor” as defined in the Code with such additions to such term as may hereafter be made.

“**Additional Capital Event**” is the receipt by Borrower after the Effective Date and prior to the Amortization Date of unrestricted net cash proceeds of not less than Forty Five Million Dollars (\$45,000,000) from (i) the issuance and sale by Borrower of its unsecured subordinated convertible debt and/or equity securities and/or (ii) a payment from Celgene Corporation specifically related to Celgene’s election to extend its option to acquire Borrower.

“**Affiliate**” of any Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person’s senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person’s managers and members.

“**Agreement**” is defined in the preamble hereof.

“**Amortization Date**” is, with respect to a Term Loan, March 1, 2019; provided that such date shall be extended to September 1, 2019 upon the occurrence of the Additional Capital Event.

“**Annual Projections**” is defined in Section 6.2(a).

“**Anti-Terrorism Laws**” are any laws relating to terrorism or money laundering, including Executive Order No. 13224 (effective September 24, 2001), the USA PATRIOT Act, the laws comprising or implementing the Bank Secrecy Act, and the laws administered by OFAC.

“**Approved Fund**” is any (i) investment company, fund, trust, securitization vehicle or conduit that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business or (ii) any Person (other than a natural person) which temporarily warehouses loans for any Lender or any entity described in the preceding clause (i) and that, with respect to each of the preceding clauses (i) and (ii), is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) a Person (other than a natural person) or an Affiliate of a Person (other than a natural person) that administers or manages a Lender.

“**Approved Lender**” is defined in Section 12.1.

“**Bank**” is defined in the preamble hereof.

“**Bank Services**” are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank’s various agreements related thereto (each, a “**Bank Services Agreement**”).



**“Basic Rate”** is, with respect to a Term Loan, the per annum rate of interest (based on a year of three hundred sixty (360) days) equal to the greater of (i) seven and thirty-nine one hundredths of one percent (7.39%) and (ii) the sum of (a) the thirty (30) day U.S. LIBOR rate reported in the Wall Street Journal on the last Business Day of the month that immediately precedes the month in which the interest will accrue, plus (b) six and four tenths of one percent (6.40%). Notwithstanding the foregoing, the Basic Rate for the Term Loan for the period from the Effective Date through and including August 31, 2017 shall be seven and sixty-three one hundredths of one percent (7.63%).

**“Blocked Person”** is any Person: (a) listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (b) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (c) a Person with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law, (d) a Person that commits, threatens or conspires to commit or supports “terrorism” as defined in Executive Order No. 13224, or (e) a Person that is named a “specially designated national” or “blocked person” on the most current list published by OFAC or other similar list.

**“Borrower”** is defined in the preamble hereof.

**“Borrower’s Books”** are Borrower’s or any of its Subsidiaries’ books and records including ledgers, federal, and state tax returns, records regarding Borrower’s or its Subsidiaries’ assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

**“Business Day”** is any day that is not a Saturday, Sunday or a day on which Collateral Agent is closed.

**“Cash Equivalents”** are (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper or other debt securities maturing no more than one (1) year after the date of acquisition and a rating of at least A (or the equivalent) from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc., (c) time deposits, certificates of deposit and bankers’ acceptances maturing no more than one (1) year after the date of acquisition, provided that the account in which any such time deposit, certificate of deposit or bankers’ acceptance is maintained is subject to a Control Agreement in favor of Collateral Agent, (d) demand deposits and overnight bank deposits, provided that the account in which any such deposit is maintained is subject to a Control Agreement in favor of Collateral Agent, (e) money market funds that invest in short term investment grade investments, provided that the account in which any such money market funds are maintained is subject to a Control Agreement in favor of Collateral Agent, and (f) investments similar to those described in clauses (a) through (e) above that are permitted pursuant to Borrower’s investment policy as approved by the Board of Directors of Borrower from time to time, provided that such investment policy (and any such amendment thereto) has been approved in writing by Collateral Agent. For the avoidance of doubt, the direct purchase by Borrower or any of its Subsidiaries of any Auction Rate Securities, or purchasing participations in, or entering into any type of swap or other derivative transaction, or otherwise holding or engaging in any ownership interest in any type of Auction Rate Security by Borrower or any of its Subsidiaries shall be conclusively determined by the Lenders as an ineligible Cash Equivalent, and any such transaction shall expressly violate each other provision of this Agreement governing Permitted Investments. Notwithstanding the foregoing, Cash Equivalents does not include and Borrower, and each of its Subsidiaries, are prohibited from purchasing, purchasing participations in, entering into any type of swap or other equivalent derivative transaction, or otherwise holding or engaging in any ownership interest in any type of debt instrument, including, without limitation, any corporate or municipal bonds with a long-term nominal maturity for which the interest rate is reset through a dutch auction and more commonly referred to as an auction rate security (each, an **“Auction Rate Security”**).

**“Celgene Negative Pledge and Amendment Agreement”** means that certain Negative Pledge and Amendment Agreement effective as of June 8, 2017, by and between the Borrower and Celgene Corporation.

**“Claims”** are defined in Section 12.2.

“**Code**” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Collateral Agent’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term “Code” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“**Collaboration Agreement**” means that certain Amended and Restated Collaboration and License Agreement to be entered into by the Borrower and Celgene Corporation on or after the Effective Date; provided that the terms relating to Permitted Assignments and Permitted Licenses (a) are consistent in all material respects with the draft provided by Borrower to Collateral Agent and the Lenders on July 26, 2017 or (b) otherwise are approved in writing by the Collateral Agent and the Required Lenders.

“**Collateral**” is any and all properties, rights and assets of Borrower described on Exhibit A.

“**Collateral Account**” is any Deposit Account, Securities Account, or Commodity Account, or any other bank account maintained by Borrower or any Subsidiary at any time.

“**Collateral Agent**” is, Oxford, not in its individual capacity, but solely in its capacity as agent on behalf of and for the benefit of the Lenders.

“**Commitment Percentage**” is set forth in Schedule 1.1, as amended from time to time.

“**Commodity Account**” is any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

“**Communication**” is defined in Section 10.

“**Compliance Certificate**” is that certain certificate in the form attached hereto as Exhibit C.

“**Contingent Obligation**” is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) the net obligations in respect of any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Control Agreement**” is any control agreement entered into among the depository institution at which Borrower or any of its Subsidiaries maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower or any of its Subsidiaries maintains a Securities Account or a Commodity Account, Borrower and such Subsidiary, and Collateral Agent pursuant to which Collateral Agent obtains control (within the meaning of the Code) for the benefit of the Lenders over such Deposit Account, Securities Account, or Commodity Account.

“**Copyrights**” are any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**Credit Extension**” is any Term Loan or any other extension of credit by Collateral Agent or Lenders for Borrower’s benefit.

“**Default Rate**” is defined in Section 2.3(b).

“**Deposit Account**” is any “deposit account” as defined in the Code with such additions to such term as may hereafter be made.

“**Designated Deposit Account**” is Borrower’s deposit account, account number \*\*\*\*\*, maintained with Bank.

“**Disbursement Letter**” is that certain form attached hereto as Exhibit B-1.

“**Dollar Equivalent**” is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

“**Dollars**,” “**dollars**” and “**\$**” each mean lawful money of the United States.

“**Effective Date**” is defined in the preamble of this Agreement.

“**Eligible Assignee**” is (i) a Lender, (ii) an Affiliate of a Lender, (iii) an Approved Fund and (iv) any commercial bank, savings and loan association or savings bank or any other entity which is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) and which extends credit or buys loans as one of its businesses, including insurance companies, mutual funds, lease financing companies and commercial finance companies, in each case, which either (A) has a rating of BBB or higher from Standard & Poor’s Rating Group and a rating of Baa2 or higher from Moody’s Investors Service, Inc. at the date that it becomes a Lender or (B) has total assets in excess of Five Billion Dollars (\$5,000,000,000.00), and in each case of clauses (i) through (iv), which, through its applicable lending office, is capable of lending to Borrower without the imposition of any withholding or similar taxes; provided that notwithstanding the foregoing, “Eligible Assignee” shall not include, unless an Event of Default has occurred and is continuing, (i) Borrower or any of Borrower’s Affiliates or Subsidiaries or (ii) a direct competitor of Borrower or a vulture hedge fund, each as determined by Collateral Agent. Notwithstanding the foregoing, (x) in connection with assignments by a Lender due to a forced divestiture at the request of any regulatory agency, the restrictions set forth herein shall not apply and Eligible Assignee shall mean any Person or party and (y) in connection with a Lender’s own financing or securitization transactions, the restrictions set forth herein shall not apply and Eligible Assignee shall mean any Person or party providing such financing or formed to undertake such securitization transaction and any transferee of such Person or party upon the occurrence of a default, event of default or similar occurrence with respect to such financing or securitization transaction; provided that no such sale, transfer, pledge or assignment under this clause (y) shall release such Lender from any of its obligations hereunder or substitute any such Person or party for such Lender as a party hereto until Collateral Agent shall have received and accepted an effective assignment agreement from such Person or party in form satisfactory to Collateral Agent executed, delivered and fully completed by the applicable parties thereto, and shall have received such other information regarding such Eligible Assignee as Collateral Agent reasonably shall require.

“**Equipment**” is all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**ERISA**” is the Employee Retirement Income Security Act of 1974, as amended, and its regulations.

“**Event of Default**” is defined in Section 8.

**“Final Payment”** is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earliest to occur of (a) the Maturity Date, or (b) the acceleration of any Term Loan, or (c) the prepayment of a Term Loan pursuant to Section 2.2(c) or (d), equal to the original principal amount of such Term Loan multiplied by the Final Payment Percentage, payable to Lenders in accordance with their respective Pro Rata Shares.

**“Final Payment Percentage”** is three and eighty three one hundredths of one percent (3.83%).

**“Foreign Currency”** means lawful money of a country other than the United States.

**“Foreign Subsidiary”** is a Subsidiary that is not an entity organized under the laws of the United States or any territory thereof.

**“Funding Date”** is any date on which a Credit Extension is made to or on account of Borrower which shall be a Business Day.

**“FX Contract”** is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

**“GAAP”** is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession in the United States, which are applicable to the circumstances as of the date of determination.

**“General Intangibles”** are all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work, whether published or unpublished, any patents, trademarks, service marks and, to the extent permitted under applicable law, any applications therefor, whether registered or not, any trade secret rights, including any rights to unpatented inventions, payment intangibles, royalties, contract rights, goodwill, franchise agreements, purchase orders, customer lists, route lists, telephone numbers, domain names, claims, income and other tax refunds, security and other deposits, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

**“Governmental Approval”** is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

**“Governmental Authority”** is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

**“Guarantor”** is any Person providing a Guaranty in favor of Collateral Agent.

**“Guaranty”** is any guarantee of all or any part of the Obligations, as the same may from time to time be amended, restated, modified or otherwise supplemented.

**“Indebtedness”** is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

**“Indemnified Person”** is defined in Section 12.2.

---

**“Insolvency Proceeding”** is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

**“Insolvent”** means not Solvent.

**“Intellectual Property”** means (i) from the Effective Date until September 26, 2017, all of Borrower’s or any Subsidiary’s right, title and interest in and to the following:

(a) its Copyrights, Trademarks and Patents and licenses therefor, whether arising under the United States, multinational or foreign laws or otherwise;

(b) any and all trade secrets, trade secret licenses and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals, domain names and intangible rights in software and databases;

(c) any and all source code;

(d) any and all design rights which may be available to Borrower;

(e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and

(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents or licenses therefore; and

(ii) from September 27, 2017 and thereafter, all of Borrower’s or any Subsidiary’s right, title and interest in and to the following:

(a) its Copyrights, Trademarks and Patents;

(b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals, and domain names;

(c) any and all source code;

(d) any and all design rights which may be available to Borrower;

(e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and

(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

**“Inventory”** is all “inventory” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of any Person’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

**“Investment”** is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance, payment or capital contribution to any Person.

“**Key Person**” is each of Borrower’s (i) Chief Executive Officer, who is William Newell as of the Effective Date, and (ii) Chief Financial Officer, who is Ed Albini as of the Effective Date.

“**Lender**” is any one of the Lenders.

“**Lenders**” are the Persons identified on Schedule 1.1 hereto and each assignee that becomes a party to this Agreement pursuant to Section 12.1.

“**Lenders’ Expenses**” are all audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses, as well as appraisal fees, fees incurred on account of lien searches, inspection fees, and filing fees) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred by Collateral Agent and/or the Lenders in connection with the Loan Documents.

“**Letter of Credit**” is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

“**Lien**” is a claim, mortgage, deed of trust, levy, charge, pledge, security interest, or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“**Loan Documents**” are, collectively, this Agreement, the Warrants, the Perfection Certificates, each Compliance Certificate, each Disbursement Letter, each Loan Payment/Advance Request Form and any Bank Services Agreement, the Post Closing Letter, each Guaranty, any subordination agreements, any note, or notes or guaranties executed by Borrower or any other Person, and any other present or future agreement entered into by Borrower, any Guarantor or any other Person for the benefit of the Lenders and Collateral Agent in connection with this Agreement; all as amended, restated, or otherwise modified.

“**Loan Payment/Advance Request Form**” is that certain form attached hereto as Exhibit B-2.

“**Material Adverse Change**” is (a) a material impairment in the perfection or priority of Collateral Agent’s Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, or operations or condition (financial or otherwise) of Borrower or, Borrower and each of its Subsidiaries, taken as a whole; or (c) a material impairment of the prospect of repayment of any portion of the Obligations.

“**Maturity Date**” is, for each Term Loan, August 1, 2021.

“**Obligations**” are all of Borrower’s obligations to pay when due any debts, principal, interest, Lenders’ Expenses, the Prepayment Fee, the Final Payment, and other amounts Borrower owes the Lenders now or later, in connection with, related to, following, or arising from, out of or under, this Agreement or, the other Loan Documents (other than the Warrants), or otherwise, including, without limitation, all obligations relating to letters of credit (including reimbursement obligations for drawn and undrawn letters of credit), cash management services, and foreign exchange contracts, if any, unless otherwise provided in any applicable Bank Services Agreement, and including interest accruing after Insolvency Proceedings begin (whether or not allowed) and debts, liabilities, or obligations of Borrower assigned to the Lenders and/or Collateral Agent, and the performance of Borrower’s duties under the Loan Documents (other than the Warrants).

“**OFAC**” is the U.S. Department of Treasury Office of Foreign Assets Control.

“**OFAC Lists**” are, collectively, the Specially Designated Nationals and Blocked Persons List maintained by OFAC pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) and/or any other list of terrorists or other restricted Persons maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Executive Orders.

**“Operating Documents”** are, for any Person, such Person’s formation documents, as certified by the Secretary of State (or equivalent agency) of such Person’s jurisdiction of organization on a date that is no earlier than thirty (30) days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

**“Patents”** means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

**“Payment Date”** is the first (1<sup>st</sup>) calendar day of each calendar month, commencing on September 1, 2017.

**“Perfection Certificate”** and **“Perfection Certificates”** is defined in Section 5.1.

**“Permitted Assignment”** means an assignment (i) to Celgene Corporation by Borrower, or any of its Subsidiaries, of the composition of matter, methods of use, and formulation of each Nominated Development Candidate (as defined in the Collaboration Agreement) and corresponding Licensed Product (as defined in the Collaboration Agreement); provided that (a) in no event shall the foregoing include any SUTRO IP (as defined in the Collaboration Agreement); and (b) all upfront payments, milestone payments or other proceeds arising from the assignment that are payable to Borrower or any of its Subsidiaries are paid to a Deposit Account that is governed by a Control Agreement; and (ii) to a third party (other than Celgene Corporation) by Borrower, or any of its Subsidiaries, of the composition of matter, methods of use, and formulation of any protein drug, antibody, antibody fragment, or antibody-drug conjugate identified as a development candidate or licensed product, in connection with such license and/or collaboration agreement with such third party; provided that (a) in no event shall the foregoing include any of Borrower’s, or any of its Subsidiaries’ background Intellectual Property and/or core technology (as such terms are to be defined in such license and/or collaboration agreement); and (b) all upfront payments, milestone payments or other proceeds arising from the assignment that are payable to Borrower or any of its Subsidiaries are paid to a Deposit Account that is governed by a Control Agreement. In order for an assignment under the preceding sub-clause (ii) to meet the requirements of a “Permitted Assignment”, Borrower shall obtain Collateral Agent’s and the Required Lenders’ prior written approval (such approval shall be in Collateral Agent’s or the Required Lenders’ sole but reasonable discretion) of (A) the proposed definitive license and/or collaboration agreement evidencing the final material terms of such assignment, or (B) in the event such assignment relates to a protein drug, antibody, antibody fragment, or antibody-drug conjugate or other candidate to be identified as part of a discovery program conducted by Borrower pursuant to a licensing and/or collaboration agreement with such third party, the proposed final term sheet for such license and/or collaboration, provided that the final definitive license and/or collaboration agreement is consistent in all material respects with such term sheet.

**“Permitted Indebtedness”** is:

- (a) Borrower’s Indebtedness to the Lenders and Collateral Agent under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date and disclosed on the Perfection Certificate(s);
- (c) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness consisting of capitalized lease obligations and purchase money Indebtedness, in each case incurred by Borrower or any of its Subsidiaries to finance the acquisition, repair, improvement or construction of fixed or capital assets of such person, provided that (i) the aggregate outstanding principal amount of all such Indebtedness does not exceed Two Hundred Fifty Thousand Dollars (\$250,000.00) at any time and (ii) the principal amount of such Indebtedness does not exceed the lower of the cost or fair market value of the property so acquired or built or of such repairs or improvements financed with such Indebtedness (each measured at the time of such acquisition, repair, improvement or construction is made);

(f) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of Borrower's business;

(g) Indebtedness owed in respect of any obligations (including, without limitation, overdrafts and related liabilities) arising under the Bank Services Agreement;  
and

(h) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (e) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose materially more burdensome terms upon Borrower, or its Subsidiary, as the case may be.

**"Permitted Investments"** are:

(a) Investments disclosed on the Perfection Certificate(s) and existing on the Effective Date;

(b) (i) Investments consisting of cash and Cash Equivalents, and (ii) any other Investments permitted by Borrower's investment policy, as amended from time to time, provided that such investment policy as approved by the Board of Directors of Borrower (and any such amendment thereto) has been approved in writing by Collateral Agent;

(c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;

(d) Investments consisting of deposit accounts in which Collateral Agent has a perfected security interest;

(e) Investments in connection with Transfers permitted by Section 7.1;

(f) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by Borrower's Board of Directors; not to exceed Two Hundred Fifty Thousand Dollars (\$250,000.00) in the aggregate for (i) and (ii) in any fiscal year;

(g) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(h) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (h) shall not apply to Investments of Borrower in any Subsidiary; and

(i) non-cash Investments in joint ventures or strategic alliances in the ordinary course of Borrower's business consisting of thenon-exclusive licensing of technology, the development of technology or the providing of technical support.

**"Permitted Licenses"** are (A) licenses of over-the-counter software that is commercially available to the public, (B) non-exclusive and exclusive licenses for the use of the Intellectual Property of Borrower or any of its Subsidiaries entered into in the ordinary course of business, provided, that, with respect to each such license described in clause (B), (i) no Event of Default has occurred or is continuing at the time of such license; (ii) the license constitutes an arms-length transaction, the terms of which, on their face, do not provide for a sale or assignment of any Intellectual Property and do not restrict the ability of Borrower or any of its Subsidiaries, as applicable, to pledge, grant a security interest in or lien on, or assign or otherwise Transfer any Intellectual Property; (iii) in the case of any exclusive license, (x) Borrower delivers ten (10) days' prior written notice and a brief summary of the terms of the proposed license to Collateral Agent and the Lenders and delivers to Collateral Agent



and the Lenders copies of the final executed licensing documents in connection with the exclusive license promptly upon consummation thereof, and (y) any such license could not result in a legal transfer of title of the licensed property but may be exclusive in respects other than territory and may be exclusive as to territory only as to discrete geographical areas outside of the United States; and (iv) all upfront payments, royalties, milestone payments or other proceeds arising from the licensing agreement that are payable to Borrower or any of its Subsidiaries are paid to a Deposit Account that is governed by a Control Agreement, (C) licenses to Celgene Corporation pursuant to the Collaboration Agreement; provided, that, with respect to each such license described in clause (C), (i) no Event of Default has occurred or is continuing at the time of such license; (ii) such license could not result in a legal transfer of title of the licensed property (other than with respect to any Permitted Assignment); and (iii) all upfront payments, royalties, milestone payments or other proceeds arising from the licensing agreement that are payable to Borrower or any of its Subsidiaries are paid to a Deposit Account that is governed by a Control Agreement, and (D) licenses to any third party of any protein drug, antibody, antibody fragment or antibody-drug conjugate or other candidate, provided, that, with respect to each such license described in clause (D), (i) no Event of Default has occurred or is continuing at the time of such license; (ii) the license constitutes an arms-length transaction, the terms of which, on their face, do not provide for a sale or assignment of the applicable candidate (or any Intellectual Property associated therewith), other than with respect to any Permitted Assignment; (iii) (x) Borrower delivers to Collateral Agent and the Lenders copies of the final executed licensing documents in connection with the license promptly upon consummation thereof, and (y) any such license could not result in a legal transfer of title of the licensed property (other than with respect to any Permitted Assignment); and (iv) all upfront payments, royalties, milestone payments or other proceeds arising from the licensing agreement that are payable to Borrower or any of its Subsidiaries are paid to a Deposit Account that is governed by a Control Agreement. In order for a license under the preceding clause (D) to meet the requirements of a "Permitted License", Borrower shall obtain Collateral Agent's and the Required Lenders' prior written approval (such approval shall be in Collateral Agent's or the Required Lenders' sole but reasonable discretion) of (1) the proposed definitive license and/or collaboration agreement evidencing the final material terms of such license, or (2) in the event such license relates to a protein drug, antibody, antibody fragment, or antibody-drug conjugate to be identified as part of a discovery program conducted by Borrower pursuant to a licensing and/or collaboration agreement with such third party, the proposed final term sheet for such license and/or collaboration, provided that the final definitive license and/or collaboration agreement is consistent in all material respects with such term sheet.

**"Permitted Liens" are:**

(a) Liens existing on the Effective Date and disclosed on the Perfection Certificates or arising under this Agreement and the other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) liens securing Indebtedness permitted under clause (e) of the definition of "**Permitted Indebtedness**," provided that (i) such liens exist prior to the acquisition of, or attach substantially simultaneous with, or within twenty (20) days after the, acquisition, lease, repair, improvement or construction of, such property financed or leased by such Indebtedness and (ii) such liens do not extend to any property of Borrower other than the property (and proceeds thereof) acquired, leased or built, or the improvements or repairs, financed by such Indebtedness;

(d) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory, securing liabilities in the aggregate amount not to exceed Two Hundred Fifty Thousand Dollars (\$250,000.00), and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(f) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(g) leases or subleases of real property granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting Collateral Agent or any Lender a security interest therein;

(h) banker's liens, rights of setoff and Liens in favor of financial institutions incurred in the ordinary course of business arising in connection with Borrower's deposit accounts or securities accounts held at such institutions solely to secure payment of fees and similar costs and expenses and provided such accounts are maintained in compliance with Section 6.6(b) hereof;

(i) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default under Section 8.4 or 8.7;

(j) Liens consisting of Permitted Licenses, or of intercompany licenses to which only Borrower and Subsidiaries of Borrower that are Guarantors of the Obligations are party; and

(k) Liens constituting deposits to secure real property lease obligations as a lessee incurred by Borrower or any Subsidiary in the ordinary course of business, including cash and Cash Equivalents deposited as collateral in support of a letter of credit issued on behalf of Borrower or any Subsidiary in connection with the same, provided that the aggregate amount of all such deposits does not exceed Six Hundred Fifty Thousand Dollars (\$650,000.00) at any time.

**"Person"** is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

**"Post Closing Letter"** is that certain Post Closing Letter dated as of the Effective Date by and between Collateral Agent and Borrower.

**"Prepayment Fee"** is, with respect to any Term Loan subject to prepayment prior to the Maturity Date, whether by mandatory or voluntary prepayment, acceleration or otherwise, an additional fee payable to the Lenders in amount equal to:

(i) for a prepayment made on or after the Funding Date of such Term Loan through and including the first anniversary of the Funding Date of such Term Loan, three percent (3.00%) of the principal amount of such Term Loan prepaid;

(ii) for a prepayment made after the date which is after the first anniversary of the Funding Date of such Term Loan through and including the second anniversary of the Funding Date of such Term Loan, two percent (2.00%) of the principal amount of the Term Loans prepaid; and

(iii) for a prepayment made after the second anniversary of the Funding Date of such Term Loan and prior to the Maturity Date, one percent (1.00%) of the principal amount of the Term Loans prepaid.

**"Pro Rata Share"** is, as of any date of determination, with respect to each Lender, a percentage (expressed as a decimal, rounded to the ninth decimal place) determined by dividing the outstanding principal amount of Term Loans held by such Lender by the aggregate outstanding principal amount of all Term Loans.

---

“**Registered Organization**” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“**Required Lenders**” means (i) for so long as all of the Persons that are Lenders on the Effective Date (each an “**Original Lender**”) have not assigned or transferred any of their interests in their Term Loan, Lenders holding one hundred percent (100%) of the aggregate outstanding principal balance of the Term Loan, or (ii) at any time from and after any Original Lender has assigned or transferred any interest in its Term Loan, Lenders holding at least sixty six percent (66%) of the aggregate outstanding principal balance of the Term Loan and, in respect of this clause (ii), (A) each Original Lender that has not assigned or transferred any portion of its Term Loan, (B) each assignee or transferee of an Original Lender’s interest in the Term Loan, but only to the extent that such assignee or transferee is an Affiliate or Approved Fund of such Original Lender, and (C) any Person providing financing to any Person described in clauses (A) and (B) above; provided, however, that this clause (C) shall only apply upon the occurrence of a default, event of default or similar occurrence with respect to such financing.

“**Requirement of Law**” is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Responsible Officer**” is any of the President, Chief Executive Officer, or Chief Financial Officer of Borrower acting alone.

“**Secured Promissory Note**” is defined in Section 2.4.

“**Secured Promissory Note Record**” is a record maintained by each Lender with respect to the outstanding Obligations owed by Borrower to Lender and credits made thereto.

“**Securities Account**” is any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

“**Shares**” is one hundred percent (100%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by Borrower or Borrower’s Subsidiary, in any Subsidiary and/or in any other entity; provided that, in the event Borrower, demonstrates to Collateral Agent’s reasonable satisfaction, that a pledge of more than sixty five percent (65%) of the Shares of such Subsidiary which is a Foreign Subsidiary, creates a present and existing adverse tax consequence to Borrower under the U.S. Internal Revenue Code, “Shares” shall mean sixty-five percent (65%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by Borrower or its Subsidiary in such Foreign Subsidiary; provided, further, that the “Shares” shall not include any capital stock of SutroVax, Inc. for so long as such capital stock is subject to (a) a right of first refusal of the other equityholders of SutroVax, Inc., or (b) call options awarded to employees and other service providers of Borrower pursuant to the Sutro Biopharma, Inc. 2017 Call Option Plan adopted by Borrower’s Board of Directors on February 6, 2017, provided that upon the termination, lapsing or expiration of both such rights of first refusal and such call options, such capital stock shall automatically become part of the “Shares.”

“**Solvent**” is, with respect to any Person: the fair salable value of such Person’s consolidated assets (including goodwill minus disposition costs) exceeds the fair value of such Person’s liabilities; such Person is not left with unreasonably small capital after the transactions in this Agreement; and such Person is able to pay its debts (including trade debts) as they mature.

“**Subordinated Debt**” is indebtedness incurred by Borrower or any of its Subsidiaries subordinated to all Indebtedness of Borrower and/or its Subsidiaries to the Lenders (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Collateral Agent and the Lenders entered into between Collateral Agent, Borrower, and/or any of its Subsidiaries, and the other creditor), on terms acceptable to Collateral Agent and the Lenders.

---

“**Subsidiary**” is, with respect to any Person, any Person of which more than fifty percent (50%) of the voting stock or other equity interests (in the case of Persons other than corporations) is owned or controlled, directly or indirectly, by such Person or through one or more intermediaries.

“**Term Loan**” is defined in Section 2.2(a) hereof.

“**Term Loan Commitment**” is, for any Lender, the obligation of such Lender to make a Term Loan, up to the principal amount shown on Schedule 1.1. “**Term Loan Commitments**” means the aggregate amount of such commitments of all Lenders.

“**Trademarks**” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“**Transfer**” is defined in Section 7.1.

“**Warrants**” are those certain Warrants to Purchase Stock dated as of the Effective Date, or any date thereafter, issued by Borrower in favor of each Lender or such Lender’s Affiliates.

*[Balance of Page Intentionally Left Blank]*

---

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

**BORROWER:**

SUTRO BIOPHARMA, INC.

By /s/ William J. Newell

Name: William J. Newell

Title: CEO

**COLLATERAL AGENT AND LENDER:**

OXFORD FINANCE LLC

By /s/ Colette H. Featherly

Name: Colette H. Featherly

Title: Senior Vice President

**LENDER:**

SILICON VALLEY BANK

By /s/ Derek Scalf

Name: Derek Scalf

Title: Vice President

*[Signature Page to Loan and Security Agreement]*

**SCHEDULE 1.1**  
**Lenders and Commitments**

**Term Loans**

<b><u>Lender</u></b>	<b><u>Term Loan Commitment</u></b>	<b><u>Commitment Percentage</u></b>
OXFORD FINANCE LLC	\$ 10,000,000	66.67%
SILICON VALLEY BANK	\$ 5,000,000	33.33%
<b>TOTAL</b>	<b>\$ 15,000,000</b>	<b>100.00%</b>

---

**EXHIBIT A**

**Description of Collateral**

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as noted below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts and other Collateral Accounts, all certificates of deposit, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

All Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include (i) any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property; provided, further, that if a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Collateral Agent's security interest in such Accounts and such other property of Borrower that are proceeds of the Intellectual Property; and (ii) more than 65% of the total combined voting power of all classes of stock entitled to vote the shares of capital stock (the "Shares") of any Foreign Subsidiary, if Borrower demonstrates to Collateral Agent's reasonable satisfaction that a pledge of more than sixty five percent (65%) of the Shares of such Subsidiary creates a present and existing adverse tax consequence to Borrower under the U.S. Internal Revenue Code; (iii) any license, lease or contract, in each case if the granting of a Lien in such license, lease or contract is prohibited by or would constitute a default under the agreement governing such license, lease or contract (but (A) only to the extent such prohibition is enforceable under applicable law and (B) other than to the extent that any such term would be rendered ineffective pursuant to Sections 9-406, 9-408 or 9-409 (or any other Section) of Division 9 of the Code); provided that upon the termination, lapsing or expiration of any such prohibition, such license, lease or contract, as applicable, shall automatically be subject to the security interest granted in favor of Collateral Agent hereunder and become part of the "Collateral"; and (iv) any capital stock of SutroVax, Inc. for so long as such capital stock is subject to (a) a right of first refusal of the other equityholders of SutroVax, Inc., or (b) call options awarded to employees and other service providers of Borrower pursuant to the Sutro Biopharma, Inc. 2017 Call Option Plan adopted by Borrower's Board of Directors on February 6, 2017, provided that upon the termination, lapsing or expiration of both such rights of first refusal and such call options, such capital stock shall automatically be subject to the security interest granted in favor of Collateral Agent hereunder and become part of the "Collateral."

Pursuant to the terms of a certain negative pledge arrangement with Collateral Agent and the Lenders, Borrower has agreed not to encumber any of its Intellectual Property.

---

**EXHIBIT B[-1]**

**Form of Disbursement Letter**

[see attached]



---

**DISBURSEMENT LETTER**

August 4, 2017

The undersigned, being the duly elected and acting \_\_\_\_\_ of Sutro Biopharma, Inc., a Delaware corporation with offices located at 310 Utah Street, Suite 150, South San Francisco, CA 94080 ("**Borrower**"), does hereby certify, solely in his or her capacity as an officer of the Borrower, and not in any personal capacity, to **OXFORD FINANCE LLC** ("**Oxford**" and "**Lender**"), as collateral agent (the "**Collateral Agent**") in connection with that certain Loan and Security Agreement dated as of August 4, 2017, by and among Borrower, Collateral Agent and the Lenders from time to time party thereto (the "**Loan Agreement**"; with other capitalized terms used below having the meanings ascribed thereto in the Loan Agreement) that:

1. The representations and warranties made by Borrower in Section 5 of the Loan Agreement and in the other Loan Documents are true and correct in all material respects as of the date hereof.

2. No event or condition has occurred that would constitute an Event of Default under the Loan Agreement or any other Loan Document.

3. Borrower is in compliance with the covenants and requirements contained in Sections 4, 6 and 7 of the Loan Agreement.

4. All conditions referred to in Section 3 of the Loan Agreement to the making of the Loan to be made on or about the date hereof have been satisfied or waived by Collateral Agent.

5. No Material Adverse Change has occurred.

6. The undersigned is a Responsible Officer.

*[Balance of Page Intentionally Left Blank]*

7. The proceeds of the Term Loan shall be disbursed as follows:

<b>Disbursement from Oxford:</b>	
Loan Amount	\$15,000,000
Plus:	
—Deposit Received	\$35,000
Less:	
—Interim Interest	(\$ _____)
—Lender’s Legal Fees	(\$ _____)*
<b>Net Proceeds due from Oxford:</b>	<b>\$ _____</b>
<b>TOTAL TERM LOAN NET PROCEEDS FROM LENDERS</b>	<b>\$ _____</b>

8. The Term Loan shall amortize in accordance with the Amortization Table attached hereto.

9. The aggregate net proceeds of the Term Loans shall be transferred to the Designated Deposit Account as follows:

Account Name:	Sutro Biopharma, Inc.
Bank Name:	[Silicon Valley Bank]
Bank Address:	[3003 Tasman Drive Santa Clara, California 95054]
Account Number:	_____
ABA Number:	[_____]

*[Balance of Page Intentionally Left Blank]*

\* Legal fees and costs are through the Effective Date. Post-closing legal fees and costs, payable after the Effective Date, to be invoiced and paid post-closing.

---

Dated as of the date first set forth above.

**BORROWER:**

SUTRO BIOPHARMA, INC.

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**COLLATERAL AGENT AND LENDER:**

OXFORD FINANCE LLC

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**LENDER:**

SILICON VALLEY BANK

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

*[Signature Page to Disbursement Letter]*

---

**AMORTIZATION TABLE**

(Term Loan)

[see attached]

EXHIBIT B-2

Loan Payment/Advance Request Form

DEADLINE FOR SAME DAY PROCESSING IS NOON PACIFIC TIME\*

Fax To:

Date: \_\_\_\_\_

**LOAN PAYMENT:**

Sutro Biopharma, Inc.

From Account # \_\_\_\_\_ To Account # \_\_\_\_\_  
(Deposit Account #) (Loan Account #)  
Principal \$ \_\_\_\_\_ and/or Interest \$ \_\_\_\_\_  
Authorized Signature: \_\_\_\_\_ Phone Number: \_\_\_\_\_  
Print Name/Title: \_\_\_\_\_

**LOAN ADVANCE:**

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.

From Account # \_\_\_\_\_ To Account # \_\_\_\_\_  
(Loan Account #) (Deposit Account #)

Amount of Advance \$ \_\_\_\_\_

All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for an advance; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature: \_\_\_\_\_ Phone Number: \_\_\_\_\_  
Print Name/Title: \_\_\_\_\_

**OUTGOING WIRE REQUEST:**

**Complete only if all or a portion of funds from the loan advance above is to be wired.**

Deadline for same day processing is noon, Pacific Time

Beneficiary Name: \_\_\_\_\_ Amount of Wire: \$ \_\_\_\_\_  
Beneficiary Bank: \_\_\_\_\_ Account Number: \_\_\_\_\_  
City and State: \_\_\_\_\_  
Beneficiary Bank Transit (ABA) #: \_\_\_\_\_ Beneficiary Bank Code (Swift, Sort, Chip, etc.): \_\_\_\_\_  
(For International Wire Only)  
Intermediary Bank: \_\_\_\_\_ Transit (ABA) #: \_\_\_\_\_  
For Further Credit to: \_\_\_\_\_

Special Instruction: \_\_\_\_\_

*By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).*

Authorized Signature: \_\_\_\_\_ 2<sup>nd</sup> Signature (if required): \_\_\_\_\_  
Print Name/Title: \_\_\_\_\_ Print Name/Title: \_\_\_\_\_  
Telephone #: \_\_\_\_\_ Telephone #: \_\_\_\_\_ ]

EXHIBIT C

Compliance Certificate

TO: OXFORD FINANCE LLC, as Collateral Agent and Lender  
SILICON VALLEY BANK, as Lender

FROM: SUTRO BIOPHARMA, INC.

The undersigned authorized officer (“**Officer**”) of Sutro Biopharma, Inc. (“**Borrower**”), hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement by and among Borrower, Collateral Agent, and the Lenders from time to time party thereto (the “**Loan Agreement**,” capitalized terms used but not otherwise defined herein shall have the meanings given them in the Loan Agreement),

(a) Borrower is in complete compliance for the period ending \_\_\_\_\_ with all required covenants except as noted below;

(b) There are no Events of Default, except as noted below;

(c) Except as noted below, all representations and warranties of Borrower stated in the Loan Documents are true and correct in all material respects on this date and for the period described in (a), above; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date;

(d) Borrower, and each of Borrower’s Subsidiaries, has timely filed all required tax returns and reports, Borrower, and each of Borrower’s Subsidiaries, has timely paid all foreign, federal, state, and local taxes, assessments, deposits and contributions owed by Borrower, or Subsidiary, except as otherwise permitted pursuant to the terms of Section 5.8 of the Loan Agreement; and

(e) No Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Collateral Agent and the Lenders.

Attached are the required documents, if any, supporting our certification(s). The Officer, on behalf of Borrower, further certifies that the attached financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes and except, in the case of unaudited financial statements, for the absence of footnotes and subject to year-end GAAP and audit adjustments as to the interim financial statements.

**Please indicate compliance status since the last Compliance Certificate by circling Yes, No, or N/A under “Complies” column.**

	<b>Reporting Covenant</b>	<b>Requirement</b>	<b>Actual</b>	<b>Complies</b>	
1)	Financial statements	Monthly within 30 days	Yes	No	N/A
2)	Annual (CPA Audited) statements	Within 210 days after FYE (and 12/31/2017 for the Annual (CPA Audited) statements for FYE 2016)	Yes	No	N/A
3)	Annual Financial Projections/Budget (prepared on a monthly basis)	Annually (within 30 days of FYE), and when revised	Yes	No	N/A

4)	A/R & A/P agings	If applicable		Yes	No	N/A
5)	8-K, 10-K and 10-Q Filings	If applicable, within 5 days of filing		Yes	No	N/A
6)	Compliance Certificate	Monthly within 30 days		Yes	No	N/A
7)	IP Report	When required		Yes	No	N/A
8)	Total amount of Borrower's cash and cash equivalents at the last day of the measurement period		\$ _____	Yes	No	N/A
9)	Total amount of Borrower's Subsidiaries' cash and cash equivalents at the last day of the measurement period		\$ _____	Yes	No	N/A

**Deposit and Securities Accounts**

*(Please list all accounts; attach separate sheet if additional space needed)*

	Institution Name	Account Number	New Account?		Account Control Agreement in place?	
1)			Yes	No	Yes	No
2)			Yes	No	Yes	No
3)			Yes	No	Yes	No
4)			Yes	No	Yes	No

**Financial Covenants**

	Covenant	Requirement	Actual	Compliance	
1)	Minimum Aggregate Available Unrestricted Cash Balance in Collateral Accounts at Bank or its Affiliates	\$7,500,000	[\$ _____]	Yes	No

**Other Matters**

1)	Have there been any changes in management since the last Compliance Certificate?	Yes	No
2)	Have there been any transfers/sales/disposals/retirement of Collateral or IP prohibited by the Loan Agreement?	Yes	No
3)	Have there been any new or pending claims or causes of action against Borrower that involve more than Two Hundred Fifty Thousand Dollars (\$250,000.00)?	Yes	No
4)	Have there been any material amendments of or other material changes to the capitalization table of Borrower and any amendments of or other changes to the Operating Documents of Borrower or any of its Subsidiaries? If yes, provide copies of any such amendments or changes with this Compliance Certificate.	Yes	No

---

**Exceptions**

Please explain any exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions." Attach separate sheet if additional space needed.)

SUTRO BIOPHARMA, INC.

By \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date:

**LENDER USE ONLY**

Received by: \_\_\_\_\_ Date: \_\_\_\_\_

Verified by: \_\_\_\_\_ Date: \_\_\_\_\_

Compliance Status:            Yes            No



---

**EXHIBIT D**

**Form of Secured Promissory Note**

[see attached]

**SECURED PROMISSORY NOTE  
(Term Loan)**

\$ \_\_\_\_\_

Dated: [DATE]

FOR VALUE RECEIVED, the undersigned, Sutro Biopharma, Inc., a Delaware corporation with offices located at 310 Utah Street, Suite 150, South San Francisco, CA 94080 ("**Borrower**") HEREBY PROMISES TO PAY to the order of [OXFORD FINANCE LLC][SILICON VALLEY BANK] ("**Lender**") the principal amount of [\_\_\_\_\_] MILLION DOLLARS (\$\_\_\_\_\_) or such lesser amount as shall equal the outstanding principal balance of the Term Loan made to Borrower by Lender, plus interest on the aggregate unpaid principal amount of such Term Loan, at the rates and in accordance with the terms of the Loan and Security Agreement dated August 4, 2017 by and among Borrower, Lender, Oxford Finance LLC, as Collateral Agent, and the other Lenders from time to time party thereto (as amended, restated, supplemented or otherwise modified from time to time, the "**Loan Agreement**"). If not sooner paid, the entire principal amount and all accrued and unpaid interest hereunder shall be due and payable on the Maturity Date as set forth in the Loan Agreement. Any capitalized term not otherwise defined herein shall have the meaning attributed to such term in the Loan Agreement.

Principal, interest and all other amounts due with respect to the Term Loan, are payable in lawful money of the United States of America to Lender as set forth in the Loan Agreement and this Secured Promissory Note (this "**Note**"). The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

The Loan Agreement, among other things, (a) provides for the making of a secured Term Loan by Lender to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may not be prepaid except as set forth in Section 2.2 (c) and Section 2.2(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Term Loan, interest on the Term Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all out-of-pocket fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce any of Borrower's obligations hereunder not performed when due.

This Note shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of California.

The ownership of an interest in this Note shall be registered on a record of ownership maintained by Lender or its agent. Notwithstanding anything else in this Note to the contrary, the right to the principal of, and stated interest on, this Note may be transferred only if the transfer is registered on such record of ownership and the transferee is identified as the owner of an interest in the obligation. Borrower shall be entitled to treat the registered holder of this Note (as recorded on such record of ownership) as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in this Note on the part of any other person or entity.

*[Balance of Page Intentionally Left Blank]*

---

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

**BORROWER:**

SUTRO BIOPHARMA, INC.

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

---

**LOAN INTEREST RATE AND PAYMENTS OF PRINCIPAL**

Date

Principal  
Amount

Interest Rate

Scheduled  
Payment Amount

Notation By

---

---

**CORPORATE BORROWING CERTIFICATE**

**BORROWER:** SUTRO BIOPHARMA, INC.  
**LENDERS:** OXFORD FINANCE LLC, as Collateral Agent and Lender  
SILICON VALLEY BANK, as Lender

**DATE:** August 4, 2017

I hereby certify, solely in my capacity as an officer of the Borrower, and not in any personal capacity, as follows, as of the date set forth above:

1. I am the Secretary, Assistant Secretary or other officer of Borrower. My title is as set forth below.
2. Borrower's exact legal name is set forth above. Borrower is a corporation existing under the laws of the State of Delaware.
3. Attached hereto as Exhibit A and Exhibit B, respectively, are true, correct and complete copies of (i) Borrower's Sixth Amended and Restated Certificate of Incorporation (including amendments), as filed with the Secretary of State of the state in which Borrower is incorporated as set forth in paragraph 2 above; and (ii) Borrower's Amended and Restated Bylaws (including amendments). Neither such Certificate of Incorporation nor such Bylaws have been further amended, annulled, rescinded, revoked or supplemented, and such Certificate of Incorporation and such Bylaws remain in full force and effect as of the date hereof.
4. The following resolutions were duly and validly adopted pursuant to a unanimous written consent of the Borrower's Board of Directors. Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and the Lenders may rely on them until each Lender receives written notice of revocation from Borrower.

*[Balance of Page Intentionally Left Blank]*

**RESOLVED**, that **any one** of the following officers or employees of Borrower, whose names, titles and signatures are below, may act on behalf of Borrower:

Name	Title	Signature	Authorized to Add or Remove Signatories
William Newell	Chief Executive Officer	_____	<input checked="" type="checkbox"/>
Ed Albini	Chief Financial Officer	_____	<input checked="" type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>

**RESOLVED FURTHER**, that **any one** of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Borrower.

**RESOLVED FURTHER**, that such individuals may, on behalf of Borrower:

**Borrow Money.** Borrow money from the Lenders.

**Execute Loan Documents.** Execute any loan documents any Lender requires.

**Grant Security.** Grant Collateral Agent a security interest in any of Borrower's assets.

**Negotiate Items.** Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Borrower has an interest and receive cash or otherwise use the proceeds.

**Issue Warrants.** Issue warrants for Borrower's capital stock.

**Further Acts.** Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Borrower's right to a jury trial) they believe to be necessary to effectuate such resolutions.

**RESOLVED FURTHER**, that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

*[Balance of Page Intentionally Left Blank]*

---

5. The persons listed above are Borrower's officers or employees with their titles and signatures shown next to their names.

**By:** \_\_\_\_\_  
**Name:**  
**Title:** Secretary

*[Signature Page to Corporate Borrowing Certificate]*

---

**EXHIBIT A**

**Sixth Amended and Restated Certificate of Incorporation (including amendments)**

[see attached]



---

**EXHIBIT B**

**Amended and Restated Bylaws (including amendments)**

[see attached]

**DEBTOR:** SUTRO BIOPHARMA, INC.  
**SECURED PARTY:** OXFORD FINANCE LLC,  
as Collateral Agent

**EXHIBIT A TO UCC FINANCING STATEMENT**

**Description of Collateral**

The Collateral consists of all of Debtor's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as noted below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts and other Collateral Accounts, all certificates of deposit, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

All Debtor's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include (i) any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property; provided, further, that if a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Secured Party's security interest in such Accounts and such other property of Debtor that are proceeds of the Intellectual Property; and (ii) more than 65% of the total combined voting power of all classes of stock entitled to vote the shares of capital stock (the "Shares") of any Foreign Subsidiary, if Debtor demonstrates to Secured Party's reasonable satisfaction that a pledge of more than sixty five percent (65%) of the Shares of such Subsidiary creates a present and existing adverse tax consequence to Debtor under the U.S. Internal Revenue Code; (iii) any license, lease or contract, in each case if the granting of a Lien in such license, lease or contract is prohibited by or would constitute a default under the agreement governing such license, lease or contract (but (A) only to the extent such prohibition is enforceable under applicable law and (B) other than to the extent that any such term would be rendered ineffective pursuant to Sections 9-406, 9-408 or 9-409 (or any other Section) of Division 9 of the Code); provided that upon the termination, lapsing or expiration of any such prohibition, such license, lease or contract, as applicable, shall automatically be subject to the security interest granted in favor of Secured Party hereunder and become part of the "Collateral"; and (iv) any capital stock of SutroVax, Inc. for so long as such capital stock is subject to (a) a right of first refusal of the other equityholders of SutroVax, Inc., or (b) call options awarded to employees and other service providers of Borrower pursuant to the Sutro Biopharma, Inc. 2017 Call Option Plan adopted by Debtor's Board of Directors on February 6, 2017, provided that upon the termination, lapsing or expiration of both such rights of first refusal and such call options, such capital stock shall automatically be subject to the security interest granted in favor of Secured Party hereunder and become part of the "Collateral."

Pursuant to the terms of a certain negative pledge arrangement with Secured Party and the Lenders, Debtor has agreed not to encumber any of its Intellectual Property.

Capitalized terms used but not defined herein have the meanings ascribed in the Uniform Commercial Code in effect in the State of California as in effect from time to time (the "Code") or, if not defined in the Code, then in the Loan and Security Agreement by and between Debtor, Secured Party and the other Lenders party thereto (as modified, amended and/or restated from time to time).

**COMMON STOCK PURCHASE AGREEMENT**

This **COMMON STOCK PURCHASE AGREEMENT** (“**Agreement**”) is made as of July 23<sup>rd</sup>, 2018 (the “**Effective Date**”), by and between SUTRO BIOPHARMA, INC., a Delaware corporation (the “**Company**”), and MERCK SHARP & DOHME CORP., a New Jersey corporation (the “**Investor**”).

**RECITALS**

**WHEREAS**, the Investor desires to purchase from the Company, and the Company desires to sell and issue to the Investor, up to \$10.0 million of the common stock, par value \$0.001 per share, of the Company (the “**Common Stock**”), in a private placement that would close concurrently with the Company’s initial public offering of Common Stock (the “**IPO**”) on the terms and subject to the conditions set forth in this Agreement (the “**Financing**”);

**WHEREAS**, the parties hereto have executed this Agreement on the Effective Date, which is prior to the effectiveness of the registration statement on Form S-1 to be filed by the Company with the Securities and Exchange Commission (the “**SEC**”) for the IPO;

**WHEREAS**, the closing of the Financing shall take place on the closing date of the closing of the IPO and at a price per share equal to the initial public offering price per share that the Common Stock is sold to the public in the IPO (the “**IPO Price**” and such date, the “**IPO Closing Date**”), as set forth on the cover of the final prospectus filed with the SEC; and

**WHEREAS**, in order to effect the IPO, the Company shall enter into an Underwriting Agreement (the “**Underwriting Agreement**”) with Cowen and Company, LLC and Piper Jaffray & Co., as representatives of the several underwriters named therein (the “**Underwriters**”).

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

**1. Purchase and Sale of Stock.**

1.1 **Sale and Issuance of Stock.** The Company agrees to issue and sell to the Investor, and the Investor agrees to purchase from the Company, up to \$10.0 million of Common Stock (or such lesser amount that is requested by the Company) (the “**Investment Amount**”) at the IPO Price pursuant to a private placement exempt from registration under the Securities Act of 1933, as amended (the “**Securities Act**”) in accordance with Rule 506 of Regulation D promulgated under the Securities Act; provided, however, that in the event the purchase by the Investor of the full Investment Amount would result in the Investor owning the Maximum Ownership Percentage or more of the outstanding Common Stock following consummation of the IPO and the Financing, then the Investment Amount shall be reduced to an amount that results in the ownership by the Investor of less than the Maximum Ownership Percentage of the outstanding Common Stock following consummation of the IPO and the Financing. The “**Maximum Ownership Percentage**” shall be 17.5% or such lesser percentage as advised in good faith and in writing by the Investor’s certified public accountants that would not require the Investor to include in its financial statements its portion of the Company’s financial results. The number of shares of Common Stock to be sold by the Company and purchased by the Investor hereunder (the “**Shares**”) shall equal the number of shares determined by dividing the Investment Amount (as adjusted as necessary pursuant to the proviso in the preceding sentence) by the IPO Price (rounded down to the nearest whole

share). Payment of the purchase price for the Shares (the "**Purchase Price**") shall be made at the Closing (as defined below) by wire transfer of immediately available funds to the account specified in writing by the Company to the Investor, subject to the satisfaction of the conditions set forth in this Agreement. Payment of the Purchase Price for the Shares shall be made against delivery to the Investor of the Shares, which Shares shall be uncertificated and shall be registered in the name of the Investor on the books of the Company by the Company's transfer agent.

1.2 Closing. The closing of the sale and purchase of the Shares (the "**Closing**") will take place remotely via the exchange of documents and signatures after the satisfaction or waiver of each of the conditions set forth in Section 4 (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions) on the IPO Closing Date.

**2. Representations and Warranties of the Company.** The Company hereby represents and warrants to the Investor that the following representations are true and correct as of the date hereof and as of the Closing (except to the extent any such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true and correct as of such earlier date); provided, that, for this purpose, the representations and warranties of the Company shall be deemed to be updated and modified by the information included in the Registration Statement, including but not limited to the final prospectus relating to the IPO, a copy of which Registration Statement which includes a statutory prospectus that meets the information requirements of Section 10 of the Securities Act shall have been furnished to the Investor prior to the Closing and on which the Investor shall be entitled to rely. "**Registration Statement**" means the registration statement on Form S-1, including any prospectus filed pursuant to Rule 424 under the Securities Act, and any free writing prospectuses, relating to the IPO.

2.1 Organization, Valid Existence and Qualification. The Company is a corporation duly organized and validly existing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as currently conducted. The Company is duly qualified to transact business as a foreign corporation in each jurisdiction in which it conducts its business, except where failure to be so qualified could not reasonably be expected to result, either individually or in the aggregate, in a material adverse effect on the Company's financial condition, business or operations.

2.2 Registration Statement. The Registration Statement and any prospectus contained therein will not, as of the filing date of such Registration Statement, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

2.3 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement, the performance of all obligations of the Company hereunder, and the authorization, issuance, sale and delivery of the Shares, has been taken or will be taken prior to the Closing, and this Agreement constitutes the valid and legally binding obligation of the Company, enforceable in accordance with their respective terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (b) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

2.4 Valid Issuance of Shares. The Shares that are being purchased by the Investor hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid, and nonassessable, and will be transferred to the Investor free of liens, encumbrances and restrictions on transfer other than (a) restrictions on transfer under applicable state and federal securities laws and (b) any liens, encumbrances or restrictions on transfer that are created or imposed by the Investor. Subject in part to the truth and accuracy of the

Investor's representations set forth in Section 3 of this Agreement, the offer, sale and issuance of the Shares as contemplated by this Agreement are exempt from the registration requirements of applicable state and federal securities laws.

2.5 Non-Contravention. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the consummation of the sale and issuance of Shares contemplated by this Agreement, except for the filing of notices of the sale of Shares pursuant to Regulation D promulgated under the Securities Act and applicable state securities laws. The Company is not in violation or default in any material respect of any provision of its certificate of incorporation or bylaws, or of any instrument, judgment, order, writ or decree to which it is a party or by which it is bound, or, to its knowledge, of any provision of any federal or state statute, rule or regulation applicable to the Company, except for such violations or defaults of any federal or state statute, rule or regulation that could not reasonably be expected to result, either individually or in the aggregate, in a material adverse effect on the Company's financial condition, business or operations. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not result in any such violation or constitute, with or without the passage of time and giving of notice, either (i) a default in any material respect of any such instrument, judgment, order, writ or decree, or (ii) an event that results in the creation of any lien, charge or encumbrance upon any assets of the Company or the suspension, revocation, impairment, forfeiture, or nonrenewal of any material permit, license, authorization or approval applicable to the Company, in each case, which could reasonably be expected to result, either individually or in the aggregate, in a material adverse effect on the Company's financial condition, business or operations.

**3. Representations and Warranties of the Investor.** The Investor hereby represents and warrants to the Company that the following representations are true and correct as of the date hereof and as of the Closing (except to the extent any such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true and correct as of such earlier date):

3.1 Authorization. The Investor has all requisite power and authority to enter into this Agreement and this Agreement constitutes its valid and legally binding obligations, enforceable in accordance with its terms except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

3.2 Purchase Entirely for Own Account. This Agreement is made with the Investor in reliance upon the Investor's representations to the Company, which by the Investor's execution of this Agreement the Investor hereby confirms, that the Shares acquired by the Investor hereunder will be acquired for investment for the Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, the Investor further represents that the Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation rights to such person or to any third person, with respect to any of the Shares.

3.3 No Solicitation. At no time was the Investor presented with or solicited by any publicly issued or circulated newspaper, mail, radio, television or other form of general advertising or solicitation in connection with the offer, sale and purchase of the Shares.

3.4 Access to Information. The Investor has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the Shares to be purchased by the Investor under this Agreement. The Investor further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Shares and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to the Investor or to which the Investor had access. The foregoing, however, does not in any way limit or modify the representations and warranties made by the Company in Section 2.

3.5 Investment Experience. The Investor understands that the purchase of the Shares involves substantial risk. The Investor has experience as an investor in securities of companies in the development stage and acknowledges that the Investor is able to fend for itself, can bear the economic risk of the Investor's investment in the Shares, including a complete loss of the investment, and has such knowledge and experience in financial or business matters that the Investor is capable of evaluating the merits and risks of this investment in the Shares and protecting its own interests in connection with this investment. The Investor represents that the office in which its investment decision was made is located at the address set forth in Section 6.5.

3.6 Accredited Investor. The Investor understands the term "accredited investor" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act and is an "accredited investor" for the purposes of acquiring the Shares to be purchased by the Investor under this Agreement.

3.7 Restricted Securities.

(a) The Investor understands that the Shares are characterized as "restricted securities" under the Securities Act inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under the Securities Act and applicable regulations thereunder such securities may be resold without registration under the Securities Act only in certain limited circumstances. The Investor represents that the Investor is familiar with Rule 144 of the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

(b) The Investor understands that the certificates evidencing the Shares may bear one or all of the following legends (or substantially similar legends):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF APPLICABLE STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

3.8 No Brokers. The Investor has not incurred, and will not incur in connection with the purchase of the Shares, any brokerage or finders' fees, or agents' commissions or similar liabilities.

**4. Conditions to the Investor's Obligations at Closing**. The obligations of the Investor at Closing are subject to the fulfillment or waiver, on or by Closing, of each of the following conditions, which waiver may be given by written, oral or telephone communication to the Company or its counsel.

4.1 **Representations and Warranties.** Each of the representations and warranties of the Company contained in Section 2 shall be true and accurate in all material respects on and as of the Closing with the same force and effect as if they had been made at the Closing, except for (a) those representations and warranties that address matters only as of a particular date (which shall remain true and correct as of such particular date), with the same force and effect as if they had been made at the Closing, and (b) those representations and warranties which (i) are qualified as to materiality or (ii) provide that the Company's failure to comply with such representation or warranty would not result in a material adverse effect, shall be true and accurate in every respect as of the Closing.

4.2 **Performance.** The Company shall have performed and complied in all material respects with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing and shall have obtained all approvals, consents and qualifications necessary to complete the purchase and sale described herein.

4.3 **IPO.** The Registration Statement shall have been declared effective by the SEC. The Underwriters shall have purchased the Firm Shares (as defined in the Underwriting Agreement) at the IPO Price (less any underwriting discounts or commissions).

4.4 **Qualifications.** All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement shall be duly obtained and effective as of the Closing, other than (a) the filing pursuant to Regulation D, promulgated under the Securities Act, and (b) the filings required by applicable state "blue sky" securities laws, rules and regulations.

**5. Conditions to the Company's Obligations at Closing.** The obligations of the Company to the Investor at the Closing are subject to the fulfillment, on or by the Closing, of each of the following conditions, which waiver may be given by written, oral or telephone communication to the Investor or its counsel:

5.1 **Representations and Warranties.** The representations and warranties of the Investor contained in Section 3 shall be true and accurate in all material respects on and as of the Closing with the same force and effect as if they had been made at the Closing.

5.2 **Performance.** The Investor shall have performed and complied in all material respects with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing and shall have obtained all approvals, consents and qualifications necessary to complete the purchase and sale described herein.

5.3 **Payment of the Purchase Price.** The Investor shall have delivered the Purchase Price as specified in Section 1.1 of this Agreement.

5.4 **IPO.** The Registration Statement shall have been declared effective by the SEC. The Underwriters shall have purchased the Firm Shares at the IPO Price (less any underwriting discounts or commissions).

5.5 **IPO Lockup.** The Investor shall have signed a customary lockup agreement requested by the Underwriters (the "**Lockup Agreement**"), including but not limited to an agreement not to sell, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock held by the Investor (other than those included in the registration) during the 180-day period following the effective date of the IPO.

---

**6. Miscellaneous.**

6.1 Survival of Representations and Warranties. The representations and warranties of the Company and the Investor contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement, and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Investor or the Company.

6.2 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware (without reference to the conflicts of law provisions thereof).

6.3 Counterparts; Facsimile Signatures. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be executed and delivered by facsimile, or by email in portable document format (.pdf) and upon such delivery of the signature page by such method will be deemed to have the same effect as if the original signature had been delivered to the other parties.

6.4 Headings; Interpretation. In this Agreement, (a) the meaning of defined terms shall be equally applicable to both the singular and plural forms of the terms defined, (b) the captions and headings are used only for convenience and are not to be considered in construing or interpreting this Agreement and (c) the words “including,” “includes” and “include” shall be deemed to be followed by the words “without limitation.” All references in this Agreement to sections, paragraphs, exhibits and schedules shall, unless otherwise provided, refer to sections and paragraphs hereof and exhibits and schedules attached hereto, all of which exhibits and schedules are incorporated herein by this reference.

6.5 Notices. All notices which are required or permitted hereunder shall be in writing and sufficient if delivered personally, sent by facsimile or email (and promptly confirmed by personal delivery, registered or certified mail or overnight courier), sent by nationally-recognized overnight courier or sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

if to the Company, to:                 Sutro Biopharma, Inc.  
  310 Utah Ave, Suite 150  
  South San Francisco, CA 94080  
  Attention: Chief Executive Officer

if to the Investor, to:                 Merck Sharp & Dohme Corp.



---

with a copy to (which shall not constitute notice): Merck Sharp & Dohme Corp.  
2000 Galloping Hill Road  
Kenilworth, NJ 07033-1310  
Attention: Senior Vice President, Business Development

Morgan, Lewis & Bockius LLP  
502 Carnegie Center  
Princeton, NJ 08540  
Attention: Bryan S. Keighery, Esq.

6.6 No Finder's Fees. The Investor agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finders' or broker's fee (and any asserted liability as a result of the performance of services of any such finder or broker) for which the Investor or any of its officers, partners, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless the Investor from any liability for any commission or compensation in the nature of a finder's or broker's fee (and any asserted liability as a result of the performance of services by any such finder or broker) for which the Company or any of its officers, employees or representatives is responsible.

6.7 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Investor. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. No waiver granted under this Agreement as to any one provision herein shall constitute a subsequent waiver of such provision or of any other provision herein, nor shall it constitute the waiver of any performance other than the actual performance specifically waived.

6.8 Severability. If any provision of this Agreement is determined by any court or arbitrator of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision will be enforced to the maximum extent possible given the intent of the parties hereto. If such clause or provision cannot be so enforced, such provision shall be stricken from this Agreement and the remainder of this Agreement shall be enforced as if such invalid, illegal or unenforceable clause or provision had (to the extent not enforceable) never been contained in this Agreement.

6.9 Entire Agreement. This Agreement, together with all exhibits and schedules hereto, constitute the entire agreement and understanding of the parties with respect to the subject matter hereof and supersede any and all prior negotiations, correspondence, agreements, understandings duties, or obligations, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.

6.10 Third Parties. Nothing in this Agreement, express or implied, is intended to confer upon any person, other than the parties hereto and their successors and assigns, any rights or remedies under or by reason of this Agreement.

6.11 Costs, Expenses. The Company and the Investor will each bear their own expenses in connection with the preparation, execution and delivery of this Agreement and the consummation of the Financing.

---

6.12 Further Assurances. The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Agreement.

6.13 Termination. This Agreement shall automatically terminate upon the earliest to occur, if any, of: (a) either the Company, on the one hand, or the Underwriters, on the other hand, advising the other in writing, prior to the execution of the Underwriting Agreement, that they have determined not to proceed with the IPO, (b) termination of the Underwriting Agreement (other than the provisions thereof which survive termination) prior to the sale of any of the Common Stock to the Underwriters in the IPO, (c) the registration statement filed with the SEC with respect to the IPO is withdrawn, (d) the Underwriting Agreement has not become effective by December 31, 2018 (or, if the Company exercises its option to extend the term of the Lockup Agreement to March 31, 2019 pursuant to the terms of such agreement, if the Underwriting Agreement has not become effective by March 31, 2019), (e) the termination of that certain Exclusive Patent License and Research Collaboration Agreement, dated as of July 23<sup>rd</sup>, 2018, by and between the Company and the Investor or (f) the written consent of each of the Company and the Investor.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

---

IN WITNESS WHEREOF, the parties hereto have executed this COMMON STOCK PURCHASE AGREEMENT as of the date first written above.

**COMPANY:**

**SUTRO BIOPHARMA INC.**

By: /s/ William J. Newell  
Name: William J. Newell  
Title: CEO

[Signature Page to Common Stock Purchase Agreement]

---

IN WITNESS WHEREOF, the parties hereto have executed this COMMON STOCK PURCHASE AGREEMENT as of the date first written above.

**INVESTOR:**

**MERCK SHARP & DOHME CORP.**

By: /s/ Benjamin Thorner

Name: Benjamin Thorner

Title: SVP & Head of BD&L

[Signature Page to Common Stock Purchase Agreement]

SUBSIDIARIES OF SUTRO BIOPHARMA, INC.

None.

**Consent of Independent Registered Public Accounting Firm**

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated June 1, 2018, in the Registration Statement (Form S-1) and related Prospectus of Sutro Biopharma, Inc. dated August 29, 2018.

/s/ Ernst & Young LLP

Redwood City, California  
August 29, 2018