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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from _____ to _____

Commission File Number: 001-38662

SUTRO BIOPHARMA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**47-0926186**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
310 Utah Avenue, Suite 150 South San Francisco, California	**94080**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (650) 392-8412

Not Applicable:
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, $0.001 par value	STRO	Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☒

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

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

As of October 30, 2020, the registrant had 38,604,176 shares of common stock, $0.001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Sutro Biopharma, Inc.
Condensed Balance Sheets
(In thousands, except share and per share amounts)

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 64,370	$ 4,960
Marketable securities	137,990	112,904
Investment in equity securities	78,872	—
Accounts receivable (including amounts from related parties of $0 and $1,050 as of September 30, 2020 and December 31, 2019, respectively)	7,483	6,298
Prepaid expenses and other current assets	3,583	4,406
Total current assets	292,298	128,568
Property and equipment, net	11,945	9,633
Marketable securities, non-current	—	15,609
Other non-current assets	2,122	2,545
Restricted cash	872	15
Total assets	$ 307,237	$ 156,370
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,879	$ 5,584
Accrued compensation	5,890	6,017
Deferred revenue—current	15,703	19,465
Debt—current	—	1,000
Other current liabilities	3,438	901
Total current liabilities	29,910	32,967
Deferred revenue, non-current	8,366	16,195
Deferred rent	280	409
Debt—non-current	24,411	8,876
Other noncurrent liabilities	151	134
Total liabilities	63,118	58,581
Stockholders' equity:		
Preferred stock, $0.001 par value — 10,000,000 shares authorized as of September 30, 2020 and December 31, 2019; 0 shares issued and outstanding as of September 30, 2020 and December 31, 2019	—	—
Common stock, $0.001 par value — 300,000,000 shares authorized as of September 30, 2020 and December 31, 2019; 38,092,978 and 23,098,969 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	38	23
Additional paid-in-capital	412,173	293,346
Accumulated other comprehensive income	237	165
Accumulated deficit	(168,329)	(195,745)
Total stockholders' equity	244,119	97,789
Total Liabilities and Stockholders' Equity	$ 307,237	$ 156,370

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues (including amounts from related parties of $0 and $2,813 during the three and nine months ended September 30, 2020, respectively, and $6,274 and $16,687 during the three and nine months ended September 30, 2019, respectively) (1)	$ 17,823	$ 12,277	$ 34,444	$ 31,431
Operating expenses				
Research and development	19,361	16,897	54,223	48,220
General and administrative	9,079	8,115	26,435	23,897
Total operating expenses	28,440	25,012	80,658	72,117
Loss from operations	(10,617)	(12,735)	(46,214)	(40,686)
Interest income	295	964	1,320	3,264
Unrealized gain on equity securities	29,778	—	78,638	—
Interest and other expense, net	(2,317)	(1,141)	(6,328)	(3,533)
Net income (loss)	$ 17,139	$ (12,912)	$ 27,416	$ (40,955)
Net income (loss) per share, basic	$ 0.46	$ (0.56)	$ 0.91	$ (1.79)
Net income (loss) per share, diluted	$ 0.45	$ (0.56)	$ 0.90	$ (1.79)

(1) Includes $0 and $2.8 million, respectively, for the three months and nine months ended September 30, 2020 of related party revenue from Merck. Merck was a related party until the closing of the Company's public offering on May 14, 2020.

See accompanying notes to unaudited interim condensed financial statements.

Sutro Biopharma, Inc.
Condensed Statements of Comprehensive Income (Loss)
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ 17,139	$ (12,912)	$ 27,416	$ (40,955)
Other comprehensive income:				
Unrealized (loss) gain on available-for-sale securities	(161)	10	72	270
Comprehensive income (loss)	$ 16,978	$ (12,902)	$ 27,488	$ (40,685)

See accompanying notes to unaudited interim condensed financial statements.

Sutro Biopharma, Inc.
Condensed Statements of Stockholders' Equity
(Unaudited)
(In thousands, except share amounts)

	Preferred Stock		Common Stock		Additional Paid-In-	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Income (Loss)	Deficit	Equity
Balances at December 31, 2019	—	$ —	23,098,969	$ 23	$ 293,346	$ 165	$ (195,745)	$ 97,789
Exercise of common stock options	—	—	12,937	—	56	—	—	56
Issuance of common stock under Employee Stock Purchase Plan	—	—	74,465	—	646	—	—	646
Vesting of restricted stock units	—	—	41,050	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	2,707	—	—	2,707
Issuance of common stock warrants in connection with debt refinancing	—	—	—	—	619	—	—	619
Net unrealized loss on available-for- sale securities	—	—	—	—	—	(137)	—	(137)
Net loss	—	—	—	—	—	—	(19,595)	(19,595)
Balances at March 31, 2020	—	—	23,227,421	23	297,374	28	(215,340)	82,085
Exercise of common stock options	—	—	1,257	—	8	—	—	8
Vesting of restricted stock units	—	—	250	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	3,011	—	—	3,011
Issuance of common stock in connection with public offering, net of issuance costs of $ 6,626	—	—	12,650,000	13	91,398	—	—	91,411
Net unrealized gain on available-for- sale securities	—	—	—	—	—	370	—	370
Net income	—	—	—	—	—	—	29,872	29,872
Balances at June 30, 2020	—	$ —	35,878,928	$ 36	$ 391,791	$ 398	$ (185,468)	$ 206,757
Exercise of common stock options	—	—	12,308	—	108	—	—	108
Issuance of common stock under Employee Stock Purchase Plan	—	—	121,527	—	639	—	—	639
Vesting of restricted stock units	—	—	110,676	—	—	—	—	—
Stock transaction associated with taxes withheld on restricted stock units	—	—	(30,461)	—	(314)	—	—	(314)
Stock-based compensation expense	—	—	—	—	3,112	—	—	3,112
Issuance of common stock in connection with At-The-Market sale, net of issuance costs of $ 561	—	—	2,000,000	2	16,837	—	—	16,839
Net unrealized loss on available-for- sale securities	—	—	—	—	—	(161)	—	(161)
Net income	—	—	—	—	—	—	17,139	17,139
Balances at September 30, 2020	—	$ —	38,092,978	$ 38	$ 412,173	$ 237	$ (168,329)	$ 244,119

	Preferred Stock		Common Stock		Additional Paid-In-	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Loss	Deficit	Equity
Balances at December 31, 2018	—	$ —	22,848,184	$ 23	$ 281,891	$ (47)	$ (150,328)	$ 131,539
Adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)	—	—	—	—	—	—	10,327	10,327
Exercise of common stock options	—	—	8,347	—	42	—	—	42
Issuance of common stock under Employee Stock Purchase Plan	—	—	68,910	—	671	—	—	671
Stock-based compensation expense	—	—	—	—	2,286	—	—	2,286
Net unrealized gain on available-for- sale securities	—	—	—	—	—	103	—	103
Net loss	—	—	—	—	—	-	(14,250)	(14,250)
Balances at March 31, 2019	—	—	22,925,441	$ 23	$ 284,890	$ 56	$ (154,251)	$ 130,718
Exercise of common stock options	—	—	1,762	—	10	—	—	10
Stock-based compensation expense	—	—	—	—	2,463	—	—	2,463
Net unrealized gain on available-for- sale securities	—	—	—	—	—	157	—	157
Net loss	—	—	—	—	—	—	(13,793)	(13,793)
Balances at June 30, 2019	—	$ —	22,927,203	$ 23	$ 287,363	$ 213	$ (168,044)	$ 119,555
Exercise of common stock options	—	—	16,128	—	$ 81	—	# —	81
Issuance of common stock under Employee Stock Purchase Plan	—	—	63,029	—	$ 589	—	# —	589
Vesting of restricted stock units	—	—	114,103	—	—	—	# —	—
Stock transaction associated with taxes withheld on restricted stock units	—	—	(30,461)	—	(297)	—	—	(297)
Stock-based compensation expense	—	—	—	—	2,880	—	—	2,880
Net unrealized gain on available-for- sale securities	—	—	—	—	—	10	—	10
Net loss	—	—	—	—	—	—	(12,912)	(12,912)
Balances at September 30, 2019	—	$ —	23,090,002	$ 23	$ 290,616	$ 223	$ (180,956)	$ 109,906

See accompanying notes to unaudited interim condensed financial statements.

Sutro Biopharma, Inc.
Condensed Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2020	**2019**
Operating activities		
Net income (loss)	$ 27,416	$ (40,955)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,125	3,560
Amortization of premium (accretion of discount) on marketable securities	293	(1,328)
Stock-based compensation	8,830	7,629
Unrealized gain on equity securities	(78,638)	—
Remeasurement of liability awards	3,165	15
Other	558	243
Changes in operating assets and liabilities:		
Accounts receivable	(1,185)	(5,042)
Prepaid expenses and other assets	823	92
Accounts payable	(716)	1,477
Accrued compensation	(127)	(1,589)
Other liabilities	(747)	(180)
Deferred rent	(129)	(42)
Deferred revenue	(11,591)	(15,747)
Net cash used in operating activities	(48,923)	(51,867)
Investing activities		
Purchases of marketable securities	(113,999)	(191,717)
Maturities of marketable securities	82,300	114,076
Sales of marketable securities	22,000	20,000
Purchases of equipment and leasehold improvements	(5,504)	(1,432)
Net cash used in investing activities	(15,203)	(59,073)
Financing activities		
Proceeds from sales of common stock, net of issuance costs	108,250	—
Proceeds from debt refinancing	25,000	—
Payment of debt	(10,000)	(3,500)
Proceeds from exercise of common stock options	172	133
Taxes paid related to net share settlement of restricted stock units	(314)	(297)
Proceeds from employee stock purchase plan	1,285	1,260
Net cash provided by (used in) financing activities	124,393	(2,404)
Net increase (decrease) in cash, cash equivalents and restricted cash	60,267	(113,344)
Cash, cash equivalents and restricted cash at beginning of period	4,975	125,313
Cash, cash equivalents and restricted cash at end of period	$ 65,242	$ 11,969
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,165	$ 898
Supplemental disclosure of non-cash investing and financing information:		
Purchases of equipment included in accounts payable	$ 11	$ 11
Embedded interest associated with program fees	$ 1,544	$ 2,477
Warrants issued to lenders	$ 619	$ –

See accompanying 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 deploying its proprietary integrated cell-free protein synthesis platform, XpressCF®, to create a broad variety of optimally designed, next-generation protein therapeutics initially for cancer and autoimmune disorders. The Company was incorporated on April 21, 2003 and is headquartered in South San Francisco, California.

The Company operates in one business segment, the development of biopharmaceutical products.

At-The-Market Sales

During the three months ended September 30, 2020, the Company sold an aggregate of 2,000,000 shares of its common stock through its At-the-Market ("ATM Facility") pursuant to its Common Stock Sales Agreement dated October 4, 2019 with Cowen and Company, LLC, as sales agent. The gross proceeds from these sales were approximately $17.4 million, before deducting fees of approximately $ 0.6 million, resulting in net proceeds of approximately $ 16.8 million to the Company.

May 2020 Public Offering

On May 14, 2020, the Company closed a public offering of 12,650,000 shares of its common stock at a public offering price of $ 7.75 per share, which included the exercise in full of the underwriters' option to purchase 1,650,000 shares of common stock. The gross proceeds from this offering were approximately $98.0 million, before deducting approximately $6.6 million of underwriting discounts and commissions and other offering expenses, resulting in net proceeds of approximately $91.4 million to the Company.

Liquidity

The Company has incurred significant losses and has negative cash flows from operations. As of September 30, 2020, the Company had an accumulated deficit of $168.3 million. Management expects to incur additional substantial losses in the foreseeable future as a result of the Company's research and development activities and costs to operate as a public company.

As of September 30, 2020, the Company had unrestricted cash, cash equivalents and marketable securities of $ 202.4 million, which are available to fund future operations. The Company believes that its unrestricted cash, cash equivalents and marketable securities as of September 30, 2020 will be sufficient for the Company to continue for at least one year from the issuance date of its unaudited interim condensed financial statements.

The Company will need to raise additional capital to support the completion of its research and development activities and its operations.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying interim condensed financial statements of the Company are unaudited. These interim condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The December 31, 2019 condensed balance sheet was derived from the audited financial statements as of that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

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, income taxes and certain accrued liabilities. An estimated DLOM to determine the fair value of the Company's investment in equity securities and related liabilities was also used due to the existence of a lock-up agreement that expires in December 2020.

The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's business, results of operations and financial condition, including revenue, expenses, manufacturing, clinical trials, research and development costs and employee-related amounts, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19, as well as the economic impact on local, regional, national and international customers, suppliers, service providers and markets. We have made estimates of the impact of COVID-19 within our financial statements and there may be changes to those estimates in future periods. Actual results could differ from such estimates or assumptions.

The accompanying unaudited interim condensed financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to state fairly the Company's financial position, results of operations, comprehensive income (loss), and cash flows for the interim periods. The interim results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020, or for any other future annual or interim period.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited financial statements included in the Annual Report on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, for the year ended December 31, 2019.

Change in Estimate

In the quarter ended March 31, 2020, the Company recorded an adjustment to revenue related to a change in estimate in connection with its Exclusive Patent License and Research Collaboration Agreement (the "2018 Merck Agreement") with Merck, which was a related party until the closing of the Company's public offering on May 14, 2020. The 2018 Merck Agreement provides for the joint development of up to three research programs focusing on cytokine derivatives for cancer and autoimmune disorders. Under the 2018 Merck Agreement, the Company received from Merck a non-refundable, non-creditable, upfront payment of $60.0 million in August 2018 for access to the Company's technology and the identification and preclinical research and development of two target programs. Under ASC 606, the Company identified five performance obligations under the 2018 Merck Agreement, two of which relate to the performance of services for 1) the first target program and 2) the second target program. At the inception of the 2018 Merck Agreement, the transaction price of $60.0 million was allocated among the performance obligations using the Company's best estimate of standalone selling price ("SSP") for each of the associated performance obligations. Revenue allocated to the first and second target programs, which totaled $47.1 million, was being recognized on a proportion of performance basis, using the full-time equivalent ("FTE") cost as the basis of measurement, with such performance expected to occur over an estimated service period of three years for each target program.

In March 2020, the Company adjusted revenue recognized for the first and second target programs as the parties determined additional resources should be assigned to the first target program with a reduction of resources attributed to the second target program. This resulted in a decrease in the measure of proportional performance for the first target program and an increase in the measure of proportional performance for the second target program. These adjustments collectively decreased both the Company's revenues and net income by $0.8 million and basic and diluted net income per share by $ 0.03 and $0.03, respectively, for the nine months ended September 30, 2020.

Adoption of New Accounting Principles

In December 2019, as part of its initiative to reduce complexity in the accounting standards, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which eliminates certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also clarifies and simplifies other aspects of the accounting for income taxes. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company early adopted ASU 2019-12 on January 1, 2020, and this adoption had no material impact on the Company's financial position or results of operations.

In August 2018, the FASB issued ASU 2018-13 (Topic 820), Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, reducing certain disclosures concerning the fair value hierarchy. The guidance was effective for the Company on January 1, 2020 and did not have a material impact on the Company's financial statements.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13 (Topic 326), Financial Instruments Credit Losses, which requires consideration of a broader range of reasonable and supportable information to developing credit loss estimates. For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including all interim periods within those years. As a result of the Company having elected the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act, ASU 2016-13 is effective for the Company for the fiscal years beginning after December 15, 2020, including all interim periods within those years. Early adoption is permitted. The Company is currently assessing the impact that the adoption of ASU 2016-13 will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 (Topic 842), Leases ("ASC 842"). ASC 842 supersedes the lease recognition requirements in ASC 840, Leases. ASC 842 clarifies the definition of a lease and requires lessees to recognize right-of-use assets and lease liabilities for all leases, including those classified as operating leases under previous lease accounting guidance. For public entities, ASU 2016-02 was effective for fiscal years beginning after December 15, 2018, including all interim periods within that year. As a result of the Company having elected the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act, ASC842 will be effective for the Company on January 1, 2022. Originally, entities were required to adopt ASC 842 using a modified retrospective transition method. However, in July 2018, the FASB issued ASU 2018-11 (Topic 842), Leases: Targeted Improvements, which provides entities with an additional transition method. Under ASU 2018-11, entities have the option of initially applying ASC 842 at the adoption date, rather than at the beginning of the earliest period presented, and recognizing the cumulative effect of applying the new standard as an adjustment to beginning retained earnings in the year of adoption while continuing to present all prior periods under previous lease accounting guidance. The Company is currently evaluating the impact of adopting this guidance on the Company's financial statements. The Company currently expects that its operating lease commitments will be subject to the new standard and recognized as right-of-use assets and operating lease liabilities upon adoption of this standard, which will increase the total assets and total liabilities that it reports relative to such amounts presented prior to adoption.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, 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.

	September 30,	
	2020	**2019**
	(in thousands)	
Cash and cash equivalents	$ 64,370	$ 11,954
Restricted cash	872	15
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	$ 65,242	$ 11,969

Investments in Equity Securities

Subsequent to the closing of the initial public offering ("IPO") of Vaxcyte, Inc. in June 2020, the fair value of Vaxcyte's common stock became readily determinable. As a result, beginning June 2020, Vaxcyte common stock held by the Company is measured at fair value at each reporting period based on the closing price of Vaxcyte's common stock on the last trading day of each reporting period, adjusted for a discount for lack of marketability (DLOM), due to the lock-up agreement that expires in December 2020, with any unrealized gains and losses recorded in the Company's statements of operations.

As of September 30, 2020, the Company held 1,634,005 shares of Vaxcyte common stock with an estimated fair value of $ 78.8 million. The Company recognized an unrealized gain related to Vaxcyte common stock of $29.7 million and $78.6 million for the three-month and nine-month periods ended September 30, 2020, respectively. The unrealized gain for the nine months ended September 30, 2020 was $78.8 million from the change in estimated fair value of Vaxcyte common stock, partially offset by a $0.2 million adjustment related to a revaluation of a prior preferred stock warrant converted to common stock. See Note 3—"Fair Value Disclosures," Note 4 — "Cash and Marketable Securities", and Note 8—"Related Party Transactions".

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;

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 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.

The Company's investments in equity securities are classified as Level 2 within the fair value hierarchy while subject to a lock-up agreement that expires in December 2020. As a result of the lock up, as of September 30, 2020, the Company has applied an estimated DLOM of 2.25%, which is a Level 2 input.

Revenue Recognition

The Company has no products approved for commercial sale and has not generated any revenue from commercial product sales. The total revenue to date has been generated principally from collaboration and license agreements and to a lesser extent, from manufacturing, supply and services and products the Company provides to its collaboration partners.

Collaboration revenue

The Company derives revenue from collaboration arrangements, under which the Company may grant licenses to its collaboration partners to further develop and commercialize its proprietary product candidates. The Company may also perform research and development activities under the collaboration agreements. Consideration under these contracts generally includes a nonrefundable upfront payment, development, regulatory and commercial milestones and other

contingent payments, and royalties based on net sales of approved products. Additionally, the collaborations may provide options for the customer to acquire from the Company materials and reagents, clinical product supply or additional research and development services under separate agreements.

The Company assesses which activities in the collaboration agreements are considered distinct performance obligations that should be accounted for separately. The Company develops assumptions that require judgement to determine whether the license to the Company's intellectual property is distinct from the research and development services or participation in activities under the collaboration agreements.

At the inception of each agreement, the Company determines the arrangement transaction price, which includes variable consideration, based on the assessment of the probability of achievement of future milestones and contingent payments and other potential consideration. The Company also evaluates estimates of our resources, which are used as the basis of measurement for revenue to be recognized on a proportion of performance basis.

For arrangements that include multiple performance obligations, the Company allocates the transaction price to the identified performance obligations based on SSP of each distinct performance obligation. In instances where SSP is not directly observable, the Company develops assumptions that require judgment to determine the SSP for each performance obligation identified in the contract. These key assumptions may include FTE, personnel effort, estimated costs, discount rates and probabilities of clinical development and regulatory success.

Upfront Payments: For collaboration arrangements that include a nonrefundable upfront payment, if the license fee and research and development services cannot be accounted for as separate performance obligations, the transaction price is deferred and recognized as revenue over the expected period of performance using a cost-based input methodology. The Company uses judgement to assess the pattern of delivery of the performance obligation. In addition, amounts paid in advance of services being rendered may result in an associated financing component to the upfront payment. Accordingly, the interest on such borrowing cost component will be recorded as interest expense and revenue, based on an appropriate borrowing rate applied to the value of services to be performed by the Company over the estimated service performance period.

License Grants: For collaboration arrangements that include a grant of a license to the Company's intellectual property, the Company considers whether the license grant is distinct from the other performance obligations included in the arrangement. For licenses that are distinct, the Company recognizes revenues from nonrefundable, upfront payments and other consideration allocated to the license when the license term has begun and the Company has provided all necessary information regarding the underlying intellectual property to the customer, which generally occurs at or near the inception of the arrangement.

Milestone and Contingent Payments: At the inception of the arrangement and at each reporting date thereafter, the Company assesses whether it should include any milestone and contingent payments or other forms of variable consideration in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur upon resolution of the uncertainty, the associated milestone value is included in the transaction price. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of each such milestone and any related constraint and, if necessary, adjusts its estimate of the overall transaction price. Since milestone and contingent payments may become payable to the Company upon the initiation of a clinical study or filing for or receipt of regulatory approval, the Company reviews the relevant facts and circumstances to determine when the Company should update the transaction price, which may occur before the triggering event. When the Company updates the transaction price for milestone and contingent payments, the Company allocates the changes in the total transaction price to each performance obligation in the agreement on the same basis as the initial allocation. Any such adjustments are recorded on a cumulative catch-up basis in the period of adjustment, which may result in recognizing revenue for previously satisfied performance obligations in such period. The Company's collaborators generally pay milestones and contingent payments subsequent to achievement of the triggering event.

Research and Development Services: For amounts allocated to the Company's research and development obligations in a collaboration arrangement, the Company recognizes revenue over time using a cost-based input methodology, representing the transfer of goods or services as activities are performed over the term of the agreement.

Materials Supply: The Company provides materials and reagents, clinical materials and services to certain of its collaborators under separate agreements. The consideration for such services is generally based on FTE personnel effort used to manufacture those materials reimbursed at an agreed upon rate in addition to agreed-upon pricing for the provided materials. The amounts billed are recognized as revenue as the performance obligations are met by the Company.

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:

	September 30, 2020			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Money market funds	$ 63,893	$ 63,893	$ –	$ –
Commercial paper	40,182	–	40,182	–
Corporate debt securities	42,480	–	42,480	–
Equity securities	78,872	–	78,872	–
Asset-backed securities	8,647	–	8,647	–
U.S. government agency securities	46,681	–	46,681	–
Total	$ 280,755	$ 63,893	$ 216,862	$ –

The following table sets forth the fair value of the Company's financial assets and liabilities measured on a recurring basis by

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Money market funds	$ 3,151	$ 3,151	$ –	$ –
Commercial paper	4,952	–	4,952	–
Corporate debt securities	69,499	–	69,499	–
Asset-backed securities	27,055	–	27,055	–
U.S. government agency securities	27,007	–	27,007	–
Total	$ 131,664	$ 3,151	$ 128,513	$ –

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 comprised 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. The Company's equity securities represent Vaxcyte common stock shares and are classified as Level 2 while subject to certain restrictions on sale. These assets are valued using market prices with a DLOM being applied, which is a Level 2 input.

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.

4. Cash Equivalents and Marketable Securities

Cash equivalents and marketable securities consisted of the following:

	September 30, 2020			
	Amortized Cost Basis	Unrealized Gains	Unrealized (Losses)	Fair Value
	(in thousands)			
Money market funds	$ 63,893	$ –	$ –	$ 63,893
Commercial paper	40,182	–	–	40,182
Corporate debt securities	42,399	81	–	42,480
Asset-based securities	8,573	74	–	8,647
U.S. government agencies	46,599	82	–	46,681
Total	201,646	237	–	201,883
Less amounts classified as cash equivalents	(63,893)	–	–	(63,893)
Total marketable securities	$ 137,753	$ 237	$ –	$ 137,990

	December 31, 2019			
	Amortized Cost Basis	Unrealized Gains	Unrealized (Losses)	Fair Value
	(in thousands)			
Money market funds	$ 3,151	$ –	$ –	$ 3,151
Commercial paper	4,952	–	–	4,952
Corporate debt securities	69,423	79	(3)	69,499
Asset-based securities	27,005	50	–	27,055
U.S. government agencies	26,968	39	–	27,007
Total	131,499	168	(3)	131,664
Less amounts classified as cash equivalents	(3,151)	–	–	(3,151)
Total marketable securities	$ 128,348	$ 168	$ (3)	$ 128,513

As of September 30, 2020 and December 31, 2019, zero and $15.6 million, respectively, of marketable securities had maturities of more than one year and are classified as long-term assets.

There were zero and $4.5 million of investments in an unrealized loss position of zero and $3,000 as of September 30, 2020 and December 31, 2019, respectively. During the three and nine months ended September 30, 2020 and 2019, the Company did not record any other-than-temporary impairment charges on its available-for-sale securities. Based upon the Company's impairment review, the Company determined that the unrealized losses were not attributed to credit risk but were primarily associated with changes in interest rates. Based on the scheduled maturities of the investments, the Company was more likely than not to hold these investments for a period of time sufficient for a recovery of the Company's cost basis. As such, the Company concluded that the unrealized losses in the investment securities were not other-than-temporary.

5. Collaboration and License Agreements and Supply Agreements

The Company has entered into collaboration and license agreements with various pharmaceutical and biotechnology companies. In accordance with the collaboration agreements, the Company recognized revenue as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Bristol Myers Squibb Company ("BMS") (1)	$ 7,119	$ 3,354	$ 10,673	$ 6,599
Merck Sharp & Dohme Corporation (“Merck”) (2)	9,055	5,488	18,837	15,620
Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name “EMD Serono”)	1,507	2,649	4,656	8,145
Vaxcyte (3)	142	786	278	1,067
Total revenue	$ 17,823	$ 12,277	$ 34,444	$ 31,431

(1) In January 2019, BMS announced the entry into a definitive agreement to acquire Celgene and the transaction was completed in November 2019.
(2) Merck was a related party until the closing of the Company’s public offering on May 14, 2020.
(3) Vaxcyte was a related party until the closing of its initial public offering on June 16, 2020.

The following table presents the changes in the Company’s deferred revenue balance from collaboration agreements during the nine months ended September 30, 2020:

	Nine Months Ended September 30, 2020
	(in thousands)
Deferred revenue—December 31, 2019	$ 35,660
Additions to deferred revenue	7,543
Recognition of revenue in current period	(19,134)
Deferred revenue—September 30, 2020	$ 24,069

The Company’s balance of deferred revenue contains the transaction price from collaboration agreements allocated to performance obligations which are partially unsatisfied, including the $5.0 million received from Merck to extend the research term of the collaboration’s first cytokine-derivative program by one year, which payment was earned in March 2020 and received in April 2020, and a $ 0.2 million upfront fee billed to Vaxcyte in consideration for the Company’s performance of certain development and manufacturing services, which amount may be recognized as revenue in future periods, upon completion of the earning process for such activities. The Company expects to recognize approximately $15.7 million of deferred revenue over the next twelve months.

There have been no material changes to the Company’s collaboration agreements in the nine months ended September 30, 2020, except as described below.

Collaborations with Celgene

In November 2019, BMS acquired Celgene, and Celgene became a wholly owned subsidiary of BMS. In connection with such acquisition, BMS assumed the rights and obligations of the 2014 Celgene Agreement, 2017 Celgene Agreement and 2018 Celgene Master Services Agreement. However, except for the presentation in the tables, the Company will continue to refer to its agreements with Celgene throughout this Form 10-Q as being with Celgene.

Celgene Agreement

In September 2014, the Company signed a Collaboration and License Agreement with Celgene 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 Celgene Agreement, the Company received an upfront, nonrefundable payment totaling $ 83.1 million.

In March 2015, the Company received a $ 15.0 million contingent payment ("March 2015 payment") from Celgene 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. Additionally, in June 2016, the Company earned a $10.0 million substantive milestone for certain manufacturing accomplishments.

In August 2017, the Company received an option fee payment of $ 12.5 million. In September 2017, the Company earned a $10.0 million milestone for certain manufacturing accomplishments, which payment was received from Celgene in October 2017. In December 2018, the Company earned a $10.0 million milestone for certain manufacturing accomplishments, which payment was received from Celgene in the same month.

In August 2017, the Company entered into an amended and restated collaboration and license agreement with Celgene to refocus the collaboration on four programs that were advancing through preclinical development, including an ADC program targeting B cell maturation antigen ("BCMA ADC").

In May 2019, the U.S. Food and Drug Administration cleared the investigational new drug ("IND") application for the BCMA ADC, which was discovered and manufactured by the Company and is the first collaboration program IND. Celgene has worldwide development and commercialization rights with respect to the BCMA ADC. The Company will continue to be responsible for clinical supply manufacturing and certain development services for the BCMA ADC and is eligible to receive from Celgene aggregate development and regulatory contingent payments of up to $275.0 million, if approved in multiple indications, and tiered royalties ranging from mid to high single digit percentages on worldwide sales of any resulting commercial products.

With respect to the remaining three collaboration programs (BCMA-CD3, PD1-LAG3 and PD1-TIM3), during the second quarter of 2019 Celgene notified the Company that it decided not to exercise the option to acquire U.S. clinical development and commercialization rights to a second collaboration program. Therefore, Celgene was not required to pay the Company the $12.5 million option maintenance fee that would have been due upon IND clearance for the first collaboration program, as described above. Consequently, the U.S. clinical development and commercialization rights to the other three collaboration programs remain owned by the Company, without any further option to Celgene. Further, upon the expiration of the research term defined by the Celgene agreement, ex-U.S. clinical development and commercialization rights to these three collaboration programs reverted to the Company in the third quarter of 2020. Therefore, the Company now solely holds worldwide rights to the BCMA-CD3, PD1-LAG3, and PD1-TIM3 programs.

The contingent payments under the Celgene Agreement are not considered to be substantive milestones because the receipt of such payments is based solely on the performance of Celgene.

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 FTE 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.

Celgene may terminate the Celgene Agreement at any time with 120 days' prior written notice. Either the Company or Celgene has the right to terminate the Celgene Agreement based on the other party's uncured material breach, challenge of the validity and enforceability of intellectual property, or bankruptcy.

In accounting for this arrangement under ASC 606, applying the practical expedients, the Celgene Agreement was treated as a single arrangement that had been modified in 2017, in the form it was last modified prior to the adoption of ASC 606.

Given the modification of the Celgene Agreement in 2017, the Company determined that the remaining deferred revenue balance of $ 8.2 million as of the date of the modification, related to certain prior Celgene payments to the Company, together with the $12.5 million option fee payment received in August 2017, would comprise the transaction price of $20.7 million to be allocated on a relative basis among the Company's performance obligations based on the Company's best estimate of each SSP or fair value. The Company identified the three performance obligations relating to the Celgene Agreement as: (1) access by Celgene to worldwide development and commercialization rights on the first collaboration program to achieve IND clearance; (2) the Company's estimated future services on the collaboration Joint Steering Committee ("JSC"); and (3) Celgene's use of certain technology and the option to acquire worldwide development and commercialization rights to a second collaboration program.

Based on its estimated SSP, relative to the total estimated SSP values of all identified performance obligations, the portion of the transaction price allocated to the first performance obligation was $8.2 million, which performance obligation was satisfied as of the modification date of the Celgene Agreement, as the BCMA ADC program was the most advanced of the four collaboration programs and estimated by the Company to be the one for which Celgene would first achieve IND clearance and gain worldwide development and commercialization rights. The second and third performance obligations identified above were unsatisfied as of the modification date of the Celgene Agreement. The Company determined the portion of the transaction price to be allocated to the JSC performance obligation was $0.2 million. Revenue related to such performance obligation will be recognized by the Company over the estimated period during which it will perform its JSC services. The Company determined that the portion of the transaction price to be allocated to the third performance obligation, which provided Celgene with an option to acquire worldwide development and commercialization rights to a second collaboration program, was $12.3 million. Although Celgene decided not to exercise this option, the Company still had the continuing performance obligation to provide Celgene access to the Company's technology. As such, the Company's revenue related to such performance obligation was recognized over the period from August 2017 through September 2020, the estimated term of the use of the technology.

Upon the adoption of ASC 606 on January 1, 2019, the Company recorded a $ 4.5 million adjustment to decrease its deferred revenue for performance obligations that were satisfied in prior periods, with the corresponding adjustment being a reduction to the Company's accumulated deficit. For the three and nine months ended September 30, 2020, the Company recognized $1.0 million and $3.0 million, respectively, of revenue associated with the Company's ongoing performance related to partially unsatisfied performance obligations, and $0.2 million and $0.6 million, respectively, from research and development services. For the three and nine months ended September 30, 2019, the Company recognized $1.0 million and $2.9 million, respectively, of revenue associated with the Company's ongoing performance related to partially unsatisfied performance obligations, and $0.1 million and $0.4 million, respectively, from research and development services.

As of September 30, 2020 and December 31, 2019, there was zero and $3.0 million, respectively, of deferred revenue related to payments received by the Company under the Celgene Agreement.

2018 Celgene Master Services Agreement

In March 2018, the Company entered into a Master Development and Clinical Manufacturing Services Agreement (the "2018 Celgene 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 FTE personnel effort and related reimbursement rate in addition to agreed-upon pricing for the clinical product supply.

Upon adoption of ASC 606 on January 1, 2019, this was deemed a modification of the arrangement and the consideration terms were at fair value and materials are to be provided on an as agreed upon basis. Accordingly, the Company will recognize revenue upon the performance of such services.

For the three and nine months ended September 30, 2020, the Company earned $ 5.9 million and $7.1 million, respectively, under the 2018 Celgene Master Services Agreement. For the three and nine months ended September 30, 2019, the Company earned $2.2 million and $3.2 million, respectively, under the 2018 Celgene Master Services Agreement.

2018 Merck Agreement

In July 2018, the Company 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.

Under the 2018 Merck Agreement, the Company received from Merck a non-refundable, non-creditable, upfront payment of $ 60.0 million in August 2018 for access to the Company's technology and the identification and preclinical research and development of two target programs, with an option for Merck to engage the Company to continue these activities for a third program upon the payment of an additional amount. Under ASC 606, the Company identified the five performance obligations under the 2018 Merck Agreement as: (1) access to certain intellectual property rights; (2) performance of services related to the first target program; (3) performance of services related to the second target program; (4) the Company's estimated future services on the collaboration JSC; and (5) a material right pertaining to the performance of services related to a contingent third target program upon the payment of an additional amount. The transaction price of $60.0 million was allocated among the performance obligations using the Company's best estimate of

SSP for each of the associated performance obligations. Based on its estimated SSP, relative to the estimated total SSP values of all identified performance obligations, the portion of the transaction price allocated to the first performance obligation was $7.3 million. It was determined that such performance obligation was satisfied as of the effective date of the 2018 Merck Agreement, and accordingly revenue associated with this performance obligation would, pursuant to ASC 606, have been recorded on the effective date of the Merck Agreement. Revenue allocated to the first and second target programs, which totaled $47.1 million, was being recognized on a proportion of performance basis, using the FTE cost as the basis of measurement, with such performance expected to occur over an estimated service period of three years for each target program. As it pertains to the JSC performance obligation, the revenue allocated to such performance obligation was $0.7 million, which was being recognized as revenue on a proportion of performance basis using FTE cost as the basis, and such effort is expected to be incurred on a relatively consistent basis throughout the term of the 2018 Merck Agreement. The Company allocated $4.9 million of the transaction price to the material right associated with the contingent third program. Recognition of the $4.9 million as revenue will begin upon commencement of the third program or upon the determination that the contingent third target program is no longer a performance obligation.

Additionally, under ASC 606, the Company determined there was a financing component associated with the $ 60.0 million upfront payment, and has calculated total interest expense of $7.3 million as of September 30, 2020 on the unearned revenue portion beyond one year from the effective date of the agreement, which amount is expected to be recognized as revenue over the estimated service period for the first and second target programs.

Upon adoption of ASC 606 on January 1, 2019, the Company recorded a $ 6.3 million adjustment to decrease its deferred revenue for performance obligations that were satisfied in prior periods, with the corresponding adjustment being a reduction to the Company's accumulated deficit.

In March 2020, the Company adjusted revenue recognized for the first and second target programs as the parties determined additional resources should be assigned to the first target program with a reduction of resources attributed to the second target program. This resulted in a decrease in the measure of proportional performance for the first target program by $6.2 million and an increase in the measure of proportional performance for the second target program of $1.1 million for a collective decrease in revenue of $ 5.1 million. See Note 2 above for further explanation.

Also, in March 2020, Merck exercised its option to extend the research term of the collaboration's first cytokine-derivative program by one year, which, pursuant to the terms of the 2018 Merck Agreement, triggered a payment of $5.0 million. The $5.0 million was, in prior periods, considered to be a fully constrained variable consideration. Removal of the constraint on this variable consideration resulted in a change to the total transaction price, from $60.0 million to $65.0 million. The Company allocated the updated transaction price to all identified performance obligations on the same basis as the initial allocation upon inception of the 2018 Merck Agreement, with any adjustments recorded as a cumulative catch-up in the current period. Based upon the adjusted transaction price, revenue allocated to the access to intellectual property rights was $7.8 million and incremental revenue of $ 0.5 million was recognized in the period as this performance obligation was previously completed. Revenue allocated to the first and second target programs totaled $50.5 million, to be recognized on a proportion of performance basis, using the FTE cost as the basis of measurement, with such performance expected to occur over an estimated service period of three years for each target program. Incremental revenue of $ 1.5 million was recognized in the quarter ended March 31, 2020. The Company allocated $5.9 million of the adjusted transaction price to the material right associated with the contingent third program. No revenue for this performance obligation has been recognized and recognition of the $5.9 million as revenue will begin upon the earlier of (i) the commencement of the third program; or (ii) upon the determination that the contingent third target program is no longer a performance obligation. As it pertains to the JSC performance obligation, the incremental transaction price allocation was immaterial. As a result of the change in transaction price, the Company recorded a $2.0 million cumulative catch-up in revenue in the quarter ended March 31, 2020.

During the three and nine months ended September 30, 2020, the Company recognized revenue of $ 6.9 million and $ 13.0 million, respectively, associated with the Company's ongoing performance related to the partially unsatisfied performance obligations, $0.4 million and $ 1.5 million, respectively, related to the interest component described above, and $1.7 million and $ 4.2 million, respectively, for FTE funding provided by Merck. During the three and nine months ended September 30, 2019, the Company recognized revenue of $3.8 million and $ 10.5 million, respectively, associated with the Company's ongoing performance related to the partially unsatisfied performance obligations, $0.8 million and $ 2.5 million, respectively, related to the interest component described above, and $0.9 million and $ 2.6 million, respectively, for FTE funding provided by Merck.

As of September 30, 2020 and December 31, 2019, there was $ 23.9 million and $31.9 million, respectively, of deferred revenue related to the transaction price under the 2018 Merck Agreement.

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, the Company 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.

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

EMD Serono Agreements

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 subsumed into 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 upfront, nonrefundable, non-creditable payment totaling $ 10.0 million. Upon signing the MDA Agreement, the Company received an additional upfront, 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 FTE personnel effort and related reimbursement rate.

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. 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.

Upon adoption of ASC 606 on January 1, 2019, the Company identified a single performance obligation under the MDA Agreement, which consists of the technology license, research and development activities and JSC participation over the estimated period of the agreement, as each are interrelated and not distinct within the overall context of the agreement. The transaction price of $20.0 million was being recognized on a proportion of performance basis, using the FTE cost as the basis of measurement, with such performance occurring over the estimated service period of the agreement, from June 2014 through May 2019. The Company recorded a $0.6 million adjustment to increase its deferred revenue for performance obligations that were unsatisfied in prior periods, with the corresponding adjustment being an increase to the Company's accumulated deficit.

For the three and nine months ended September 30, 2020, the Company earned $ 0.3 million and $2.6 million, respectively, from a supply agreement, $ 0.3 million and $1.1 million, respectively, from research and development services, and $ 1.0 million and $1.0 million, respectively, from a milestone payment. For the three and nine months ended September 30, 2019, the Company earned $0.6 million and $2.1 million, respectively, from a supply agreement, $ 0.5 million and $2.2 million, respectively, from research and development services, and $ 1.5 million and $3.8 million, respectively, associated with the Company's ongoing performance related to partially unsatisfied performance obligations. As of September 30, 2020 and December 31, 2019, there was zero and $0.8 million, respectively, of deferred revenue related to payments received by the Company under the MDA Agreement.

Vaxcyte Supply Agreement

In May 2018, the Company entered into a Supply Agreement (the "Supply Agreement") with Vaxcyte, wherein Vaxcyte engaged the Company to supply extracts and custom reagents, as requested by Vaxcyte. The pricing is based on an agreed upon cost plus arrangement. For the three and nine months ended September 30, 2020, the Company recognized revenue of $0.2 million and $0.3 million, respectively, under the Supply Agreement. For the three and nine months ended

September 30, 2019, the Company recognized revenue of $0.8 million and $1.1 million, respectively, under the Supply Agreement.

As the Company has a right to consideration from Vaxcyte in an amount that corresponds directly with the value of the Company's supplied extracts and custom reagents, the Company's supply of extracts and custom reagents in discrete unit form are recognized as revenue at the time when such supplies are shipped to Vaxcyte, in line with the "right to invoice" practical expedient in ASC 606.

The Company has not received any returns to date and believes that returns of its products will continue to be minimal. As such, the Company does not record any reserve for the returns but will continue to evaluate the need for a reserve each reporting period.

The Leukemia & Lymphoma Society, Inc.

In August 2018, the Company entered into a Research, Development and Commercialization Agreement (the "LLS Agreement") with The Leukemia & Lymphoma Society ("LLS"), under which LLS has agreed to contribute up to $6.0 million in clinical development funding for STRO-001, the Company's CD74-targeting ADC to treat relapsed and/or refractory multiple myeloma and non-Hodgkin lymphoma. The funding will be provided in installments based upon the achievement of funding milestones, with any excess funding above actual expenditures refundable to LLS. The initial payment of $0.5 million was received by the Company upon execution of the LLS Agreement. To date, the Company has received total payments from LLS of $1.0 million. In consideration for the funding to the Company under the LLS Agreement, the Company may be required in the future to make payments to LLS, contingent upon reaching certain pre-specified late-stage clinical development, regulatory and commercialization milestones and should the Company enter into certain transactions relating to STRO-001 with a third party, which payments in the aggregate could total up to a maximum of $19.5 million, assuming receipt by the Company from LLS of the entire $6.0 million in clinical development funding for STRO-001. As of September 30, 2020, no events have occurred that would require such payments to LLS. The LLS Agreement terminates upon the earlier of (a) fulfillment of all payment obligations by both parties or (b) 12 years after the effective date. LLS may terminate the LLS Agreement at any time with 60 days' prior written notice. Either the Company or LLS has the right to terminate the LLS Agreement based on the other party's uncured material breach.

The Company concluded that the contingent payments were an embedded derivative and recorded a related liability of approximately $ 0.2 million and $0.1 million, respectively, as a part of other noncurrent liabilities as of September 30, 2020 and December 31, 2019, with the corresponding change in estimated fair value recorded in the statements of operations as interest and other expense, net. The value of the embedded derivative was estimated based on the probability-adjusted and discounted value of future payments.

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 was due in 30 monthly installments from March 2019 through its repayment in August 2021, with interest-only monthly payments until March 2019. The Company commenced repayment of the loan in March 2019. The interest charges on the loan were based on a floating rate that equaled the greater of 7.39% or the sum of the 30-day U.S. Dollar London Interbank Offered Rate ("LIBOR") plus 6.40%. In connection with the August 2017 Loan, the Company issued to Oxford and SVB a warrant to purchase the Company's Series D-2 redeemable convertible preferred stock (the "2017 Warrant"). The 2017 Warrants were later converted into warrants to purchase Series E redeemable convertible preferred stock in May and July 2018, and upon the Company's IPO on October 1, 2018, all Series E redeemable convertible preferred stock warrants were converted to warrants to purchase 46,359 shares of common stock. The estimated fair value upon issuance of the 2017 Warrant of $ 0.3 million was recorded as a debt discount on the associated borrowings on the Company's balance sheet. The debt discount was amortized to interest expense over the expected repayment period of the loan using the effective-interest method. As of December 31, 2019, the outstanding principal on the August 2017 Loan was $10.0 million.

On February 28, 2020, (the “Effective Date”), the Company entered into a loan and security agreement (the “Loan and Security Agreement”) with Oxford as the collateral agent and a lender, and SVB as a lender (together with Oxford, the “Lenders”), pursuant to which the Lenders agreed to lend the Company up to an aggregate of $25.0 million in a series of term loans (the “Term A Loan”). Upon entering into the Loan and Security Agreement, the Company borrowed $25.0 million from the Lenders, with approximately $ 9.6 million of such amount applied to the repayment of the outstanding principal, interest and final payment fees owed pursuant to the August 2017 Loan. As such, the August 2017 Loan has been paid in full. The Company accounted for the issuance of the Loan and Security Agreement and repayment of the August 2017 Loan as a debt modification. The associated unamortized debt discount on the August 2017 Loan and new lender fees from the debt issuance will be amortized as interest expense using the effective interest method until the maturity date of the Term A Loan.

Under the terms of the Loan and Security Agreement, the Company may, at its sole discretion, borrow from the Lenders up to an additional $ 5.0 million (the “Term B Loan” and together with the Term A Loan, the “Term Loans”) upon the Company’s closing of a new collaboration agreement that includes an upfront payment of at least $50.0 million to the Company, as determined by Oxford in its sole and absolute discretion (the “Term B Milestone Event”). The Company may draw the Term B Loan during the period commencing on the date of the occurrence of the Term B Milestone Event and ending on the earliest of (i) December 31, 2020, (ii) the thirtieth (30th) day following the occurrence of the Term B Milestone Event, and (iii) the occurrence of an event of default by the Company.

The Company’s obligations under the Loan and Security Agreement are secured by all assets of the Company, other than its intellectual property. The Company has also agreed not to encumber its intellectual property assets, except as permitted by the Loan and Security Agreement.

The Term Loans mature on March 1, 2024 (the “Maturity Date”) and will be interest-only through March 1, 2022, followed by 24 equal monthly payments of principal and interest. The Term Loans will bear interest at a floating per annum rate equal to the greater of (i) 8.07% or (ii) the sum of (a) the greater of (1) 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 or (2) 1.67%, plus (b) 6.40%.

The Company will be required to make a final payment of 3.83% of the original principal amount of the Term Loans drawn, or $ 1.0 million, payable on the earlier of (i) the Maturity Date, (ii) the acceleration of any Term Loans, or (iii) the prepayment of the Term Loans (the “Final Payment”). The final payment amount is accreted as interest expense until the Maturity Date using the effective interest method. The Company may prepay all, but not less than all, of the Term Loans upon 30 days’ advance written notice to Oxford, provided that the Company will be obligated to pay a prepayment fee equal to (i) 3.00% of the principal amount of the applicable Term Loan prepaid on or before the first anniversary of the applicable funding date, or (ii) 2.00% of the principal amount of the applicable Term Loan prepaid between the first and second anniversary of the applicable funding date, or (iii) 1.00% of the principal amount of the applicable Term Loan prepaid thereafter, and prior to the Maturity Date (each, a “Prepayment Fee”).

The Loan and Security Agreement contains customary affirmative and restrictive covenants, including covenants regarding incurrence of additional indebtedness or liens, investments, transactions with affiliates, delivery of financial statements, maintenance of inventory, payment of taxes, maintenance of insurance, protection of intellectual property rights, dispositions of property, business combinations or acquisitions, among other customary covenants. The Company is also restricted from paying dividends or making other distributions or payments on its capital stock, subject to limited exceptions. The Loan and Security 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 change in the business, or operations or condition (financial or otherwise) of the Company or a material impairment of the prospect of the Company to repay any portion of its obligations under the Agreement. The Agreement also includes customary representations and warranties, other events of default and termination provisions.

In connection with entering into the Loan and Security Agreement, the Company issued to the Lenders warrants exercisable for 81,257 shares of the Company's common stock (the "2020 Warrants"). The 2020 Warrants are exercisable in whole or in part, immediately, and have a per share exercise price of $9.23, which is the closing price of the Company's common stock reported on the Nasdaq Global Market on the day prior to the Effective Date. The 2020 Warrants will terminate on the earlier of February 28, 2030 or the closing of certain merger or consolidation transactions. The estimated fair value upon issuance of the Warrants of $0.6 million is recorded as a debt discount on the associated borrowings on the Company's balance sheet. The debt discount is being amortized to interest expense over the expected repayment period of the loan using the effective-interest method.

As of September 30, 2020, the Company has classified the outstanding debt balance of $ 25.0 million as non-current, which reflects the scheduled repayment terms under the Loan and Security Agreement.

As of September 30, 2020 and December 31, 2019, accrued interest expense was $0.2 million and $0.4 million, respectively.

During the three and nine months ended September 30, 2020, the Company recorded interest expense related to loans outstanding of $ 0.7 million and $1.7 million, respectively, with average interest rates of 8.07% and 8.08%, respectively, and interest related to the accretion of debt discount of $ 0.1 million and $0.3 million, respectively. During the three and nine months ended September 30, 2019, the Company recorded interest expense related to loans outstanding of $0.3 million and $0.9 million, respectively, with average interest rates of 8.64% and 8.80%, respectively, and interest related to the accretion of debt discount of $79,000 and $254,000, respectively.

7. Commitments and Contingencies

September 2020 Sublease Agreement

On September 3, 2020, the Company entered into a sublease agreement (the "Sublease") with Five Prime Therapeutics, Inc. (the "Sublessor"), for approximately 115,466 square feet, located in South San Francisco, California (the "Premises"). The Company expects to use the Premises as its new corporate headquarters and in which to conduct (or expand) research and development activities. The commencement date for the first 85,755 square feet of the Premises ("Initial Premises") is expected to be mid-2021 at which time the Company will occupy the space and commence making monthly payments under the Sublease. The Company will be provided early access to the Sublease space commencing in the fourth quarter of 2020 to conduct certain planning and tenant improvement work, which the Company expects will result in it recording rent expense prior to space occupancy and making actual lease payments. The Sublease is subordinate to the lease agreement, effective December 12, 2016, between the Sublessor and HCP Oyster Point III LLC (the "Landlord"). The commencement date for the remaining 29,711 square feet of the Premises (the "Expansion Premises") is expected to be 24 months following the commencement date on the Initial Premises, although the Company has the right to accelerate the commencement date on the Expansion Premises to an earlier date upon six months' prior written notice to the Sublessor. The Sublease for both the Initial Premises and Expansion Premises will expire on December 31, 2027. Assuming a commencement date on the Initial Premises of April 1, 2021, the aggregate estimated base rent payments due over the term of the Sublease are approximately $47.7 million, excluding the approximately $5.2 million in potential financial benefit to the Company of base rent abatement to be provided by Sublessor for months 7 – 18 of the Sublease period, subject to certain terms contained in the Sublease. The Sublease contains customary provisions requiring the Company to pay its pro rata share of utilities and a portion of the operating expenses and certain taxes, assessments and fees of the Premises and provisions allowing the Sublessor to terminate the Sublease upon the termination of the lease with the Landlord or if the Company fails to remedy a breach of certain of its obligations within specified time periods. Additionally, the Company posted a security deposit in the form of a bank standby letter of credit, which is reflected as restricted cash in non-current assets on the Company's balance sheet as of September 30, 2020.

As of September 30, 2020, the Company's future minimum payments (excluding potential financial benefit to the Company of base rent abatement, as noted above) under the noncancelable operating sublease are as follows:

Year Ending December 31,	Amount (in thousands)
2020	$ -
2021	3,820
2022	5,228
2023	6,828
2024	7,540
Thereafter	24,241
Total future minimum sublease payments	$ 47,657

8. Related-Party Transactions

Upon the Company's public offering on May 14, 2020, Merck's ownership of the Company's outstanding equity interest decreased to less than 10%. As a result, starting May 14, 2020, the Company ceased to reflect balances and transactions associated with Merck as being with a related party in its financial statements. Transactions with Merck for the three months and nine months ended September 30, 2020 and September 30, 2019 are described in Note 5.

As discussed in Note 2, Vaxcyte closed its IPO of its common stock on June 16, 2020, resulting in the Company's ownership of Vaxcyte's outstanding equity interest being less than 4.0%. As a result, starting on June 16, 2020, the Company ceased to reflect any balances and transactions associated with Vaxcyte being a related party in its financial statements. Transactions with Vaxcyte for the three months and nine months ended September 30, 2020 and 2019 are described in Note 5.

9. Stockholders' Equity

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.

The Company has reserved common stock, on an if-converted basis, for issuance as follows:

	September 30, 2020	December 31, 2019
Common stock options issued and outstanding	5,388,251	3,872,664
Restricted common stock units issued and outstanding	652,175	335,799
Remaining shares reserved for issuance under 2004 and 2018 Equity Incentive Plan	1,918,224	2,750,416
Shares reserved for issuance under 2018 Employee Stock Purchase Plan	361,539	326,542
Warrants to purchase common stock	153,070	71,813
Total	8,473,259	7,357,234

Preferred Stock

As of September 30, 2020 and December 31, 2019, the Company had 10,000,000 shares of preferred stock authorized with a par value of $ 0.001 per share. No shares of preferred stock were outstanding as of September 30, 2020 and December 31, 2019.

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 the August 2017 Loan. If there was 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 would automatically convert to a warrant to purchase such class of shares, based on the per share price of such equity. 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 Warrant converted into a warrant 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. The warrant is exercisable from the original date of issuance and has a 10-year term.

The Company adjusted the warrant liability for changes in fair value until the completion of its IPO on October 1, 2018, at which time certain convertible preferred stock warrants were converted into warrants for the purchase of common stock and the related convertible preferred stock warrant liability was reclassified to additional paid-in capital and others expired. On October 1, 2018, 1,232,220 shares of the Series C redeemable convertible preferred warrants were canceled, and the remaining 687,928 shares were converted on a 1-for-0.0370 basis to warrants to purchase 25,454 shares of common stock. All Series E redeemable convertible preferred warrants were converted on a 1-for-0.0275 basis to warrants to purchase 46,359 shares of common stock.

In February 2020, in connection with entering into the Loan and Security Agreement, the Company issued to Oxford and SVB the 2020 Warrants, which are exercisable for 54,171 shares and 27,086 shares, respectively, of the Company's common stock. The 2020 Warrants are exercisable in whole or in part, immediately, and have a per share exercise price of $9.23, which is the closing price of the Company's common stock reported on the Nasdaq Global Market on the day prior to the Effective Date. The 2020 Warrants will terminate on the earlier of February 28, 2030 or the closing of certain merger or consolidation transactions.

10. Equity Incentive Plans, Employee Stock Purchase Plan and Stock-Based Compensation

2004 Equity Incentive Plan and 2018 Equity Incentive Plan

In September 2018, the Company adopted the 2018 Equity Incentive Plan ("2018 Plan"), which became effective on September 25, 2018. As a result, the Company will not grant any additional awards under the 2004 Equity Incentive Plan ("2004 Plan"). The terms of the 2004 Plan and applicable award agreements will continue to govern any outstanding awards thereunder. In addition to the shares of common stock reserved for future issuance under the 2004 Plan that were added to the 2018 Plan upon its effective date, the Company initially reserved 2,300,000 shares of common stock for issuance under the 2018 Plan. In addition, the number of shares of common stock reserved for issuance under the 2018 Plan will automatically increase on the first day of January for a period of up to ten years, commencing on January 1, 2019, in an amount equal to 5% of the total number of shares of the Company's capital stock outstanding on the last day of the preceding year, or a lesser number of shares determined by the Company's board of directors. As a result, common stock reserved for issuance under the 2018 Plan was increased by 1,154,948 shares on January 1, 2020. As of September 30, 2020, the Company had 1,918,224 shares available for grant under the 2018 Plan.

The following table summarizes option activity under the Company's 2004 Plan and 2018 Plan:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)	Aggregate Intrinsic Value (in thousands)
Stock options outstanding at December 31, 2019	3,872,664	$ 12.89	7.88	$ 2,119
Granted	1,655,078	$ 8.96		
Exercised	(26,502)	$ 6.49		
Canceled and forfeited	(112,989)	$ 10.45		
Stock options outstanding at September 30, 2020	5,388,251	$ 11.77	7.82	$ 3,425
Stock options exercisable at September 30, 2020	2,482,870	$ 12.48	6.69	$ 1,389

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 three and nine months ended September 30, 2020, the aggregate intrinsic value of stock options exercised was $48,000 and $129,000, respectively, determined at the date of the option exercise. For the three and nine months ended September 30, 2019, the aggregate intrinsic value of stock options exercised was $63,000 and $119,000, 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:

	Nine Months Ended September 30,	
	2020	**2019**
Expected term (in years)	5.06-7.01	5.07-7.01
Expected volatility	73.15%-84.24%	72.89%-74.89%
Risk-free interest rate	0.16%-1.62%	1.42%-2.55%
Expected dividend	–	–

Using the Black-Scholes option-valuation model, the weighted-average estimated grant-date fair value of employee stock options granted during the three and nine months ended September 30, 2020 was $5.69 and $5.09 per share, respectively, and during the three and nine months ended September 30, 2019 was $4.88 and $6.74 per share, respectively.

Restricted Stock Units

During the nine months ended September 30, 2020, the Company granted 505,250 shares of restricted common stock units, or RSUs, to certain employees. These RSUs will become fully vested over four years in August 2024.

A summary of the status and activity of non-vested RSUs at September 30, 2020 is as follows:

	Number of shares		**Weighted Average Grant-Date Fair Value**
Non-vested December 31, 2019	335,799	$	13.49
Granted	505,250	$	8.21
Vested and released	(151,976)	$	14.03
Canceled and forfeited	(36,898)	$	9.10
Non-vested September 30, 2020	652,175	$	9.52

2018 Employee Stock Purchase Plan

In September 2018, the Company adopted the 2018 Employee Stock Purchase Plan ("ESPP"), which became effective on September 26, 2018, in order to enable eligible employees to purchase shares of the Company's common stock. The Company initially reserved 230,000 shares of common stock for sale under the ESPP. The aggregate number of shares reserved for sale under the 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 the Company's 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 the Company's board of directors. As a result, common stock reserved for issuance under the ESPP was increased by 230,989 shares on January 1, 2020. The aggregate number of shares issued over the term of the Company's ESPP, subject to stock-splits, recapitalizations or similar events, may not exceed 2,300,000 shares of the Company's common stock.

The fair value of the ESPP shares is estimated using the Black-Scholes option pricing model. For the nine months ended September 30, 2020, the fair value of ESPP shares was estimated using the following assumptions:

	Nine Months Ended September 30,	
	2020	2019
Expected term (in years)	0.5	0.5
Expected volatility	94.10 %	63.04 %
Risk-free interest rate	0.38 %	1.92 %
Expected dividend	–	–

As of September 30, 2020, 327,931 shares had been purchased and 361,539 shares were available for future issuance under the ESPP.

Stock-Based Compensation Expense

The Company believes that the fair value of the stock options, RSUs and ESPP shares is more reliably measurable than the fair value of services received.

Total stock-based compensation expense recognized was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Research and development expense:				
Stock options	$ 403	$ 259	$ 987	$ 732
Restricted stock units	210	190	617	493
ESPP	148	218	368	295
Subtotal	761	667	1,972	1,520
General and administrative expense:				
Stock options	1,799	1,766	5,257	4,920
Restricted stock units	532	381	1,521	1,095
ESPP	20	66	80	94
Subtotal	2,351	2,213	6,858	6,109
Total	$ 3,112	$ 2,880	$ 8,830	$ 7,629

As of September 30, 2020, unrecognized stock-based compensation expense related to the unvested stock options and RSUs granted was $18.5 million and $5.4 million, respectively. The remaining unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.4 years and 2.7 years, respectively. As of September 30, 2020, there is $0.3 million of unrecognized stock-based compensation expense related to the ESPP.

Non-Employee Stock-Based Compensation Expense

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 three and nine months ended September 30, 2020 and 2019 was immaterial.

Call Option Plan

In February 2017, the Company adopted a Call Option Plan to grant selected employees, officers, directors and consultants (collectively, the "Participants") options to purchase shares of the common stock of Vaxcyte. As of September 30, 2020, the Company has reserved 266,724 shares of Vaxcyte common stock for issuance under the program, under which call options covering 248,944 and 17,780 shares were granted in February 2017 and August 2019, respectively. The call options granted in February 2017 vest 25% on each of January 1, 2017, 2018, 2019, and 2020, and expire one year from the vesting date. The call options granted in August 2019 vest 25% on each of January 1, 2019, 2020, 2021, and 2022, and expire one year from the vesting date.

The call options were measured at fair value on grant date and at each reporting period prior to their vesting, with cost recognized over the requisite service period as compensation cost. Any changes in the fair value subsequent to the vesting date are recognized in interest and other expense, net in the statements of operations. Call options covering 248,944 and 17,780 shares have been granted with an exercise price of $1.28 per share and $2.04 per share, respectively.

A summary of the status of the call options at September 30, 2020 and at December 31, 2019 is as follows:

	September 30, 2020 Shares	December 31, 2019 Shares
Options vested and exercised	191,153	191,153
Options vested and outstanding	66,681	-
Options unvested and outstanding	8,890	75,571
Total options granted	266,724	266,724

The amounts recognized as compensation expense related to the Call Option Plan for the three and nine months ended September 30, 2020 were $90,000 and $158,000, respectively. The amounts recognized as compensation expense related to the Call Option Plan for the three and nine months ended September 30, 2019 were $24,000 and $59,000, respectively.

The amounts recognized as other expense related to the remeasurement of the vested call options for the three and nine months ended September 30, 2020 were $1.1 million and $3.1 million, respectively. The amounts recognized as other expense related to the remeasurement of the vested call options for the three and nine months ended September 30, 2019 were not material. As of September 30, 2020 and December 31, 2019, the liability attributable to the Call Option Plan was $3.4 million and $76,000, respectively.

11. Net Income (Loss) Per Share

The following table sets forth the computation of the Company's basic and diluted net loss per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income (loss), basic and diluted	$ 17,139	$ (12,912)	$ 27,416	$ (40,955)
Denominator:				
Weighted-average shares used to compute basic EPS	36,887,266	22,946,989	29,994,917	22,913,118
Dilutive effect of common stock options	828,623	–	228,557	–
Dilutive effect of restricted stock units	159,788	–	120,649	–
Dilutive effect of warrants to purchase common stock	1,875	–	5,733	–
Weighted-average shares used to compute diluted EPS	37,877,552	22,946,989	30,349,856	22,913,118
Net income (loss) earnings per share:				
Basic	$ 0.46	$ (0.56)	$ 0.91	$ (1.79)
Diluted	$ 0.45	$ (0.56)	$ 0.90	$ (1.79)

The following common stock equivalents were excluded from the computation of diluted net loss per share for the period ended September 30, 2019, because including them would have been antidilutive:

	As of September 30,
	2019
Common stock options issued and outstanding	3,977,783
Restricted stock units issued and outstanding	340,687
Warrants to purchase common stock	71,813
Total	4,390,283

12. Subsequent Events

The Company has evaluated all events occurring through November 4, 2020, the date on which the condensed financial statements were issued, during which time nothing has occurred outside the normal course of business operations that would require disclosure other than the event disclosed below.

From October 1, 2020 through November 4, 2020, the Company sold an aggregate of 500,000 shares of its common stock through its ATM Facility. The net proceeds to the Company from these sales after deducting fees was approximately $5.0 million.

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

You should read the following discussion of our financial condition and results of operations in conjunction with our condensed financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2019. In addition to historical financial information, this discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as statements of our plans, objectives, expectations, intentions and belief. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section titled "Risk Factors" under Part II, Item 1A below. These forward-looking statements may include, but are not limited to, statements related to our expectations regarding the potential impacts of the COVID-19 pandemic on our business, financial condition, and results of operations, our future results of operations and financial position, business strategy, market size, potential growth opportunities, preclinical and clinical development activities, efficacy and safety profile of our product candidates, use of net proceeds from our public offerings, our ability to maintain and recognize the benefits of certain designations received by product candidates, the timing and results of preclinical studies and clinical trials, commercial collaborations with third parties and the receipt and timing of potential regulatory designations, approvals and commercialization of product candidates. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "predict," "target," "intend," "could," "would," "should," "project," "plan," "expect," and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

Overview

We are a clinical stage drug discovery, development and manufacturing company focused on deploying our proprietary integrated cell-free protein synthesis platform, XpressCF®, to create a broad variety of optimally designed, next-generation protein therapeutics initially for cancer and autoimmune disorders. We aim to design therapeutics using the most relevant and potent modalities, including cytokine-based targets, immuno-oncology, or I/O, agents, 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.

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, or NHL, and STRO-002, an ADC directed against folate receptor-alpha, or FolRα, for patients with ovarian and endometrial cancers.

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. The Phase 1 trial for STRO-001 is an open-label study that is evaluating STRO-001 as a monotherapy for patients with multiple myeloma and NHL. The trial is being 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.

STRO-002 was designed and optimized for an improved therapeutic index by placing a precise number of linker-warheads at four specific locations within the antibody using our proprietary XpressCF+™ Platform. Our Phase 1 trial for STRO-002 is an open-label study evaluating STRO-002 as a monotherapy for patients with ovarian and endometrial cancers. The trial is being conducted in two-parts, dose escalation and dose expansion. The primary objectives of the STRO-002 clinical trial are 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 are to characterize the human pharmacokinetics and additional safety, tolerability and efficacy measures.

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, a wholly owned subsidiary of Bristol Myers Squibb Company, New York, NY, or BMS, and an oncology-focused collaboration with Merck KGaA, Darmstadt Germany (operating in the United States and Canada under the name “EMD Serono”).

In November 2019, BMS acquired Celgene, and Celgene became a wholly owned subsidiary of BMS. However, we continue to refer to our agreements with Celgene throughout this Form 10-Q as being with Celgene.

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 Celgene (now BMS), Merck and EMD Serono, the issuance and sale of redeemable convertible preferred stock, our public offerings of common stock and debt proceeds.

We have no products approved for commercial sale and have not generated any revenue from commercial product sales. We had a loss from operations of $46.2 million and net income of $27.4 million, due principally to an unrealized gain of $78.6 million related to our holdings of Vaxcyte common stock, for the nine months ended September 30, 2020, and a net loss of $41.0 million for the nine months ended September 30, 2019. We cannot assure you that we will have net income or that we will generate positive cash flow from operating activities in the future. As of September 30, 2020, we had an accumulated deficit of $168.3 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 and research and development facilities 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 losses from operations 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.

Recent Developments

STRO-002

We began enrolling patients in a STRO-002 Phase 1 trial focused on ovarian and endometrial cancers in March 2019, with initial safety and efficacy data reported in late 2019 and in the second and third quarters of 2020. On September 9, 2020, we announced updated interim data from our ongoing Phase 1 clinical trial of STRO-002 in patients with advanced platinum-resistant/refractory epithelial ovarian cancer, including fallopian or primary peritoneal cancers.

As of August 31, 2020, the dose escalation portion of the Phase 1 trial for STRO-002 had completed enrollment of 39 patients with heavily pre-treated ovarian cancer, with 34 patients being dosed at 2.9 milligrams per kilogram, or mpk, or higher. Of 33 patients at dose levels of 2.9 mpk or higher that were evaluable with at least one post-baseline scan, the observed overall response rate was 24% (8/33) with 2 confirmed and 6 unconfirmed partial responses. The observed disease control rate at twelve weeks or greater was 60% (20/33), with seven partial responses (two confirmed and five unconfirmed) and thirteen patients with stable disease. 44% of patients remained on treatment for 16 weeks or greater and 12% of patients continue on treatment for 1 year or greater. Although neither stable disease nor remaining on study for more than 16 weeks qualify as objective responses for FDA approval purposes, we believe they provide encouraging evidence of tumor control and clinical benefit.

In this study, we also measured levels of the ovarian cancer tumor-associated marker, cancer antigen 125, or CA-125. Of 25 patients dosed at 2.9 mpk or higher with elevated CA-125 levels at base-line and a post-base line assessment, 18 patients had a ≥50% reduction of CA-125 in at least one post-treatment timepoint, including ten reductions of CA-125 of at least 50% that are maintained and confirmed 28 days later.

STRO-002 was generally well tolerated and was mostly associated with mild adverse events, or AEs. Eighty-seven percent (87%) of AEs were grade 1 or grade 2 and prophylactic corticosteroid eye drops have not been necessary. Grade 3 treatment emergent AEs included fatigue, neutropenia, arthralgia, abdominal pain, increased aspartate aminotransferase (AST), diarrhea, and peripheral neuropathy. The only grade 4 treatment emergent AEs observed were neutropenia, in twelve patients. Neutropenia was generally reversible within one week without treatment with G-CSF.

We currently plan to provide further interim safety and initial efficacy data from the dose escalation portion and to begin the dose expansion portion of the Phase 1 clinical study in the fourth quarter of 2020. We are continuing to actively explore optimal dose levels as we seek to determine the recommended dose regimen for expansion cohorts.

STRO-001

We are currently enrolling patients with non-Hodgkin's lymphoma, or NHL, and multiple myeloma in the STRO-001 Phase 1 dose-escalation trial. Dose escalation in the Phase 1 trial is ongoing for both the NHL and multiple myeloma cohorts and the maximum tolerated dose, or MTD, has not yet been reached. On November 4, 2020, we disclosed updated interim data from our ongoing Phase 1 clinical trial of STRO-001 in patients with advanced, relapsed/refractory NHL.

As of July 31, 2020, the dose escalation portion of the Phase 1 trial for STRO-001 had enrolled 18 NHL patients, with 1.78 mpk being the highest dose administered as of that date. NHL subtypes included 6 diffuse large B-cell lymphoma, or DLBCL, 5 follicular lymphoma, or FL, 2 mantle cell lymphoma, or MCL, 2 marginal zone lymphoma, 1 Burkitt's lymphoma, 1 composite DLBCL/FL and 1 composite DLBCL/CLL. The median number of prior therapies for these patients was 4, with a range of 1-12. Of these 18 patients, 17 had completed at least one cycle of STRO-001 and were evaluable for safety and toxicity, while 16 patients were evaluable for response.

In these 16 patients evaluable for preliminary signs of efficacy, the preliminary clinical benefit/disease control rate was 25% (4/16) including 1 complete response, 2 partial responses and 1 patient with stable disease.

Based on the preliminary safety data, STRO-001 has been generally well tolerated with no ocular or neuropathy toxicity signals observed. Most AEs have been grade 1 or 2 (90%) with the most common grade 1-2 treatment emergent AEs of chills, fatigue, nausea, anemia, headache, pyrexia, infusion reaction, decreased appetite, and abdominal pain occurring in greater than 20% of patients. There was one dose-limiting toxicity in the NHL cohort, a grade 3 thromboembolic event at the 0.91 mpk dose level. The study continues to enroll patients in the dose escalation portion of the Phase 1 trial, with next planned dose levels of 2.5 mpk and 3.5 mpk. We expect to begin enrolling patients in the dose-expansion portion of the Phase 1 trial in first half of 2021, following completion of dose escalation and selection of a dose for dose expansion.

September 2020 Sublease Agreement

On September 3, 2020, we entered into a sublease agreement, or the Sublease, with Five Prime Therapeutics, Inc. (the "Sublessor"), for approximately 115,466 square feet, located in South San Francisco, California (the "Premises"). We expect to use the Premises as our new corporate headquarters and in which to conduct (or expand) research and development activities. The commencement date for the first 85,755 square feet of the Premises ("Initial Premises") is expected to be by mid-2021 at which time we will occupy the space and commence making monthly payments under the Sublease. We will be provided early access to the Sublease space commencing in the fourth quarter of 2020 to conduct certain planning and tenant improvement work, which we expect will result in us recording rent expense prior to space occupancy and making actual lease payments. The Sublease is subordinate to the lease agreement, effective December 12, 2016, between the Sublessor and HCP Oyster Point III LLC (the "Landlord"). The commencement date for the remaining 29,711 square feet of the Premises (the "Expansion Premises") is expected to be 24 months following the commencement date on the Initial Premises, although we have the right to accelerate the commencement date on the Expansion Premises to an earlier date upon six months' prior written notice to the Sublessor. The Sublease for both the Initial Premises and Expansion Premises will expire on December 31, 2027. Assuming a commencement date on the Initial Premises of April 1, 2021, the aggregate estimated base rent payments due over the term of the Sublease are approximately $47.7 million, excluding the approximately $5.2 million in potential financial benefit to us of base rent abatement to be provided by Sublessor for months 7 – 18 of the Sublease period, subject to certain terms contained in the Sublease. The Sublease contains customary provisions requiring us to pay our pro rata share of utilities and a portion of the operating expenses and certain taxes, assessments and fees of the Premises and provisions allowing the Sublessor to terminate the Sublease upon the termination of the lease with the Landlord or if we fail to remedy a breach of certain of our obligations within specified time periods. Additionally, we posted a security deposit in the form of a bank standby letter of credit, which is reflected as restricted cash in non-current assets on our balance sheet as of September 30, 2020.

At-The-Market Sales

During the three months ended September 30, 2020, we sold an aggregate of 2,000,000 shares of our common stock through our At-the-Market ATM facility, or ATM Facility, pursuant to our Common Stock Sales Agreement dated October 4, 2019 with Cowen and Company, LLC, as sales agent. The gross proceeds from these sales were approximately $17.4 million, before deducting fees of approximately $0.6 million, resulting in net proceeds of approximately $16.8 million.

May 2020 Public Offering

On May 14, 2020, we closed a public offering of 12,650,000 shares of our common stock at a public offering price of $7.75 per share, which included the exercise in full of the underwriters' option to purchase 1,650,000 shares of common stock. Our net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses, was approximately $91.4 million.

Vaxcyte, Inc. Equity Ownership

In June 2020, Vaxcyte, Inc., or Vaxcyte, formerly known as SutroVax, Inc., closed an initial public offering of its common stock at a price per share of $16.00. As of September 30, 2020, we held 1,634,005 shares of Vaxcyte common stock, with an estimated fair value of $78.8 million, which shares are subject to a lock-up agreement that expires in December 2020.

Impacts of the COVID-19 Pandemic

The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our clinical studies, employee or industry events, and effect on our collaboration partners, suppliers, service providers and manufacturers, all of which are uncertain and cannot be predicted. The COVID-19 pandemic and its adverse effects have become more prevalent in the locations where we, our CROs, suppliers or third-party business partners conduct business and as a result, we may experience more pronounced disruptions in our operations, liquidity, supply chain, facilities, and clinical trials. With respect to our clinical trials, we have experienced delays in enrollment and occasional delays in data entry by trial sites, but overall enrollment and treatment remains on track. We may in the future experience more significant delays in enrollment, participant dosing, distribution of clinical trial materials, study monitoring and data analysis that could materially adversely impact our business, results of operations and overall financial performance in future periods. Specifically, we may experience impact from changes in how we and companies worldwide conduct business due to the COVID-19 pandemic, including but not limited to restrictions on travel and in-person meetings, delays in site activations and enrollment of clinical trials, prioritization of hospital resources toward pandemic effort, delays in review by the FDA and comparable

foreign regulatory agencies, and disruptions in our supply chain for our product candidates. As of the filing date of this Form 10-Q, the extent to which the COVID-19 pandemic may impact our financial condition, results of operations or guidance is uncertain. The effect of the COVID-19 pandemic will not be fully reflected in our results of operations and overall financial performance until future periods. See the section titled “Risk Factors” for further discussion of the possible impact of the COVID-19 pandemic on our business.

Financial Operations Overview

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 (now BMS), Merck and EMD Serono, and to a lesser extent, from manufacturing, supply and services and products we provide to Celgene, Vaxcyte and EMD Serono.

We derive revenue from collaboration arrangements, under which we may grant licenses to our collaboration partners to further develop and commercialize our proprietary product candidates. We may also perform research and development activities under the collaboration agreements. Consideration under these contracts generally includes a nonrefundable upfront payment, development, regulatory and commercial milestones and other contingent payments, and royalties based on net sales of approved products. Additionally, the collaborations may provide options for the customer to acquire from us materials and reagents, clinical product supply or additional research and development services under separate agreements. We assess which activities in the collaboration agreements are considered distinct performance obligations that should be accounted for separately. We develop assumptions that require judgement to determine whether the license to our intellectual property is distinct from the research and development services or participation in activities under the collaboration agreements.

At the inception of each agreement, we determine the arrangement transaction price, which includes variable consideration, based on the assessment of the probability of achievement of future milestones and contingent payments and other potential consideration. We also evaluate estimates of our resources, which are used as the basis of measurement for revenue to be recognized on a proportion of performance basis

For arrangements that include multiple performance obligations, we allocate the transaction price to the identified performance obligations based on the standalone selling price, or SSP, of each distinct performance obligation. In instances where SSP is not directly observable, we develop assumptions that require judgment to determine the SSP for each performance obligation identified in the contract. These key assumptions may include full-time equivalent, or FTE, personnel effort, estimated costs, discount rates and probabilities of clinical development and regulatory success.

Please see further discussion on the revenue recognition treatment of performance obligations under Critical Accounting Policies and Estimates.

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 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 and research and development facilities 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.

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, development and manufacturing services, and other consulting costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Internal costs:				
Research and drug discovery	$ 4,688	$ 4,844	$ 13,664	$ 13,762
Process and product development	2,652	2,318	7,916	6,900
Manufacturing	6,084	5,212	17,446	15,934
Clinical development	673	497	1,831	1,455
Total internal costs	14,097	12,871	40,857	38,051
External Program Costs:				
Research and drug discovery	288	313	871	744
Toxicology and translational science	31	402	642	1,369
Process and product development	117	44	283	211
Manufacturing	3,023	1,696	6,822	3,812
Clinical development	1,805	1,571	4,748	4,033
Total external program costs	5,264	4,026	13,366	10,169
Total research and development expenses	$ 19,361	$ 16,897	$ 54,223	$ 48,220

General and Administrative

Our general and administrative expenses consist primarily of personnel costs, expenses for outside professional services, including legal, human resources, audit, accounting and tax services and allocated facilities-related costs. Personnel costs include salaries, employee benefits and stock-based compensation. As we continue to advance our product candidates into and through the clinic, we expect the growth of our business to require increased general and administrative expenses.

Interest Income

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

Unrealized Gain on Equity Securities

Unrealized gain on equity securities consists of the remeasurement of our investment in Vaxcyte common stock.

Interest and Other Expense, Net

Interest expense includes interest incurred on our debt and amortization of debt issuance costs. Additionally, the Company identified a financing component under the Merck 2018 Agreement and recorded interest expense associated with the upfront payment. Other income (expense) in the three months ended September 30, 2020 and September 30, 2019 includes changes in values attributable to the arrangement with the Leukemia & Lymphoma Society, Inc. and the Call Option Plan.

Comparison of the Three Months Ended September 30, 2020 and 2019

	Three Months Ended September 30,			
	2020	2019	Change	Change (%)
	(in thousands)			
Revenues	$ 17,823	$ 12,277	$ 5,546	45 %
Operating expenses				
Research and development	19,361	16,897	2,464	15 %
General administrative	9,079	8,115	964	12 %
Total operating expenses	28,440	25,012	3,428	14 %
Loss from operations	(10,617)	(12,735)	2,118	(17)%
Interest income	295	964	(669)	(69)%
Unrealized gain on equity securities	29,778	–	29,778	*
Interest and other expense, net	(2,317)	(1,141)	(1,176)	103 %
Net income (loss)	$ 17,139	$ (12,912)	$ 30,051	*

* Percentage not meaningful

Revenue

We have recognized revenue as follows during the periods indicated:

	Three Months Ended September 30,			
	2020	2019	Change	Change (%)
	(in thousands)			
Bristol Myers Squibb Company ("BMS") (1)	$ 7,119	$ 3,354	$ 3,765	112 %
Merck Sharp & Dohme Corporation (“Merck”) (2)	$ 9,055	$ 5,488	$ 3,567	65 %
Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name “EMD Serono”)	$ 1,507	2,649	(1,142)	(43)%
Vaxcyte (3)	$ 142	786	(644)	(82)%
Total revenue	$ 17,823	$ 12,277	$ 5,546	45 %

(1) In January 2019, BMS announced the entry into a definitive agreement to acquire Celgene and the transaction was completed in November 2019.
(2) Merck was a related party until the closing of our public offering on May 14, 2020.
(3) Vaxcyte was a related party until the closing of its initial public offering on June 16, 2020.

Total revenue increased by $5.5 million, or 45%, during the three months ended September 30, 2020 compared to the three months ended September 30, 2019. This was primarily due to a net increase of $3.8 million in Celgene revenue which reflects a $2.4 million increase for contract research and manufacturing activities supporting clinical trial supply and a $1.3 million increase in research and development services. Revenue under the 2018 Merck Agreement increased by $3.5 million primarily due to a $3.9 million increase in ongoing performance and research and development services, partially offset by a $0.4 million decrease related to the financing component associated with the upfront payment. Additionally, there was a decrease of $1.1 million from EMD Serono due to a $0.6 million decrease under the supply agreement and a $0.5 million lower earned milestone payment. Also, there was a $0.6 million decrease in revenues from Vaxcyte.

Research and Development Expense

Research and development expense increased by $2.5 million, or 15%, during the three months ended September 30, 2020 compared to the three months ended September 30, 2019. The increase was due primarily to increases of $1.1 million in personnel-related expenses due to higher headcount and $1.4 million in consulting and outside services.

General and Administrative Expense

General and administrative expense increased by $1.0 million, or 12% during the three months ended September 30, 2020 compared to the three months ended September 30, 2019. The increase was due primarily to increases of $0.5 million in personnel-related expenses due to higher headcount and $0.7 million in legal and external services, partially offset by a $0.2 million decrease in equipment-related expenses.

Interest Income

Interest income decreased by $0.7 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, due primarily to a decrease in the amortization of premiums on investments.

Unrealized Gain on Equity Securities

Unrealized gain on equity securities was $29.7 million during the three months ended September 30, 2020, as compared to zero for the three months ended September 30, 2019, due to the unrealized gain from the remeasurement of the estimated fair value of our investment in Vaxcyte common stock.

Interest and Other Expense, Net

Interest and other expense, net increased by $1.2 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, due primarily to a $1.1 million increase in other expenses related to the remeasurement of the vested call options under the Call Option Plan and a $0.5 million increase in interest expense related to our outstanding debt, which was partially offset by a $0.4 million decrease in interest expense associated with the financing component related to the 2018 Merck Agreement.

Comparison of the Nine Months Ended September 30, 2020 and 2019

	Nine Months Ended September 30,			
	2020	2019	Change	Change (%)
	(in thousands)			
Revenues	$ 34,444	$ 31,431	$ 3,013	10 %
Operating expenses				
Research and development	54,223	48,220	6,003	12 %
General administrative	26,435	23,897	2,538	11 %
Total operating expenses	80,658	72,117	8,541	12 %
Loss from operations	(46,214)	(40,686)	(5,528)	14 %
Interest income	1,320	3,264	(1,944)	(60)%
Unrealized gain on equity securities	78,638	–	78,638	*
Interest and other expense, net	(6,328)	(3,533)	(2,795)	79 %
Net income (loss)	$ 27,416	$ (40,955)	$ 68,371	*

* Percentage not meaningful

Revenue

We have recognized revenue as follows during the periods indicated:

	Nine Months Ended September 30,			
	2020	2019	Change	Change (%)
	(in thousands)			
Bristol Myers Squibb Company ("BMS") (1)	$ 10,673	$ 6,599	$ 4,074	62 %
Merck Sharp & Dohme Corporation (“Merck”) (2)	$ 18,837	$ 15,620	$ 3,217	21 %
Merck KGaA, Darmstadt, Germany (operating in the United States and Canada under the name “EMD Serono”)	$ 4,656	8,145	(3,489)	(43)%
Vaxcyte (3)	$ 278	1,067	(789)	(74)%
Total revenue	$ 34,444	$ 31,431	$ 3,013	10 %

(1) In January 2019, BMS announced the entry into a definitive agreement to acquire Celgene and the transaction was completed in November 2019.
(2) Merck was a related party until the closing of our public offering on May 14, 2020.
(3) Vaxcyte was a related party until the closing of its initial public offering on June 16, 2020.

Total revenue increased by $3.0 million, or 10%, during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. This was primarily due to an increase of $4.1 million in Celgene revenue for research and development services and contract research and manufacturing activities supporting clinical trial supply, and a $3.2 million increase under the 2018 Merck Agreement which consists of an increase of $5.5 million in ongoing performance and research and development services, offset partially by a $2.3 million net decrease from the change in estimate related to additional resources being assigned to the first target program and a reduced number of resources on the second target program, and the cumulative catch-up in revenue as a result of the change in transaction price. Additionally, there was a $3.5 million decrease from EMD Serono which reflects a $2.3 million decrease due to the completion in May 2019 of recognition of the transaction price under the EMD Serono Agreement, a $0.5 million lower earned milestone payment, and a net $0.7 million decrease in research and development services and materials under the supply agreement. Also, there was a $0.8 million decrease in revenues from Vaxcyte.

Research and Development Expense

Research and development expense increased by $6.0 million, or 12%, during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. The increase was due primarily to increases of $3.5 million in personnel-related expenses due to higher headcount, $3.3 million in consulting and outside services, and $0.4 million in facilities-related expenses, partially offset by a decrease of $1.2 million in laboratory supplies and production materials-related expenses.

General and Administrative Expense

General and administrative expense increased by $2.5 million, or 11% during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. The increase was due primarily to increases of $1.9 million in personnel-related expenses due to higher headcount and $1.3 million in legal and external services, partially offset by a decrease of $0.2 million in travel expenses and $0.5 million in equipment-related expenses.

Interest Income

Interest income decreased by $1.9 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, due primarily to a decrease in the amortization of premiums on investments.

Unrealized Gain on Equity Securities

Unrealized gain on equity securities was $78.6 million during the nine months ended September 30, 2020, as compared to $0 for the nine months ended September 30, 2019, due to a $78.8 million unrealized gain from the remeasurement of the estimated fair value of our investment in Vaxcyte common stock in September 2020, offset by a $0.2 million adjustment related to a revaluation of a prior preferred stock warrant converted to common stock.

Interest and Other Expense, Net

Interest and other expense, net increased by $2.8 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, due primarily to a $3.1 million increase in other expenses related to the remeasurement of the vested call options under the Call Option Plan and a $0.5 million increase in interest expense related to our outstanding debt, which was partially offset by a $0.9 million decrease in interest expense associated with the financing component related to the 2018 Merck Agreement.

Liquidity and Capital Resources

To date, we have incurred significant net operating losses, and negative cash flows from operations. Our operations have been funded primarily by payments received from our collaborators, and net proceeds from equity sales and debt. As of September 30, 2020, we had cash, cash equivalents and marketable securities of $202.4 million, equity securities of $78.8 million, outstanding debt of $24.4 million and an accumulated deficit of $168.3 million.

Sources of Liquidity

At-The-Market Sales

During the three months ended September 30, 2020, we sold an aggregate of 2,000,000 shares of our common stock through our ATM Facility pursuant to our Common Stock Sales Agreement dated October 4, 2019 with Cowen and Company, LLC, as sales agent. The gross proceeds from these sales were approximately $17.4 million, before deducting fees of approximately $0.6 million, resulting in net proceeds of approximately $16.8 million.

May 2020 Public Offering

On May 14, 2020, we closed a public offering of 12,650,000 shares of our common stock at a public offering price of $7.75 per share, which included the exercise in full of the underwriters' option to purchase 1,650,000 shares of common stock. Our net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses, were approximately $91.4 million.

Vaxcyte, Inc. Equity Ownership

In June 2020, Vaxcyte closed an initial public offering of its common stock at a price per share of $16.00. As of September 30, 2020, we held 1,634,005 shares of Vaxcyte common stock, with an estimated fair value of $78.8 million, which are subject to a lock-up agreement that expires in December 2020.

The Vaxcyte common stock held by us will be measured at fair value at each reporting period based on the closing price of Vaxcyte's common stock on the last trading day of each reporting period, adjusted for a DLOM due to the lock-up agreement, with any unrealized gains and losses recorded in our statements of operations. As of September 30, 2020, the estimated fair value of the Vaxcyte common stock held by us was $78.8 million. We recognized an unrealized gain related to Vaxcyte common stock of $29.7 million and $78.6 million for the three-month and nine-month periods ended September 30, 2020, respectively. The unrealized gain for the nine months ended September 30, 2020 was $78.8 million from the change in estimated fair value of Vaxcyte common stock, partially offset by a $0.2 million adjustment related to a revaluation of a prior preferred stock warrant converted to common stock.

For a description of our Loan and Security Agreement with Oxford Finance LLC and Silicon Valley Bank, please see Note 6 to our condensed financial statements.

Funding Requirements

Based upon our current operating plan, we believe that our existing capital resources will enable us to fund our operating expenses and capital expenditure requirements through at least the next twelve months after the date of this

filing. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. We will continue to require additional financing to advance our current product candidates into and through clinical development, to develop, acquire or in-license other potential product candidates, pay our obligations and to fund operations for the foreseeable future.

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, marketing and distribution arrangements, or other sources of financing. Adequate additional funding may not be available to us on acceptable terms, or at all. Any failure to raise capital as and when needed could have a negative impact on our financial condition and on our ability to pursue our business plans and strategies, and may cause us 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, and may necessitate us to delay, reduce or terminate planned activities in order to reduce costs. Due to 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 unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical studies.

To the extent we raise additional capital through new 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:

	Nine Months Ended September 30,	
	2020	**2019**
	(in thousands)	
Cash used in operating activities	$ (48,923)	$ (51,867)
Cash used in investing activities	(15,203)	(59,073)
Cash provided by (used in) provided by financing activities	124,393	(2,404)
Increase (decrease) in cash, cash equivalents and restricted cash	$ 60,267	$ (113,344)

Cash Flows from Operating Activities

Cash used in operating activities for the nine months ended September 30, 2020 was $48.9 million. Our net income of $27.4 million included $78.6 million of unrealized gain on equity securities as a result of the remeasurement of the estimated fair value of our investment in Vaxcyte common stock, and was partially offset by non-cash charges of $8.8 million for stock-based compensation, $3.1 million for depreciation and amortization, $3.2 million for the remeasurement of the vested options under the Call Option Plan, $0.3 million for the amortization of premium on our marketable securities, and $0.3 million for financing costs related to the public offering. Cash used in operating activities also reflected a net decrease in operating assets and liabilities of $13.7 million, comprised of a decrease of $1.6 million in accounts payable and other liabilities due to timing of payments, a decrease of $11.6 million in our deferred revenue balance from revenue recognized under our collaboration agreements, an increase of $1.2 million in accounts receivable from our collaborators, and a $0.8 million decrease in prepaid expenses and other assets.

Cash used in operating activities for the nine months ended September 30, 2019 was $51.9 million. Our net loss of $41.0 million was decreased by non-cash charges of $7.6 million for stock-based compensation, $3.6 million for depreciation and amortization, and a $0.3 million loss on disposal of property and equipment, which were offset partially by a $1.3 million increase in the accretion of discount on our marketable securities and a $0.1 million reduction of a liability attributable to an agreement. Cash used in operating activities also reflected a net decrease in operating assets and liabilities of $21.0 million, due to a decrease in our deferred revenue balance of $15.7 million from revenue

recognized under our collaboration agreements, a decrease of $1. 6 million in accrued compensation expense primarily due to bonuses paid in connection with certain goal achievements, and an increase in accounts receivable of $5.0 million from higher research and development services revenues from our collaborators. This was offset partially by a $1.5 million increase in accounts payable due to timing of payments.

Cash Flows from Investing Activities

Cash used in investing activities of $15.2 million for the nine months ended September 30, 2020 was primarily related to purchases of marketable securities of $114.0 million and purchases of property and equipment of $5.5 million, principally to support laboratory and manufacturing activities, offset partially by maturities and sales of marketable securities of $104.3 million.

Cash used in investing activities of $59.1 million for the nine months ended September 30, 2019 was primarily related to purchases of marketable securities of $191.7 million and purchases of property and equipment of $1.4 million, principally for laboratory and manufacturing equipment, offset partially by maturities and sales of marketable securities of $134.1 million.

Cash Flows from Financing Activities

Cash provided by financing activities of $124.4 million for the nine months ended September 30, 2020 was primarily related to $91.4 million of net proceeds from the issuance of common stock from our public offering, $16.8 million of net proceeds from the sales of common stock pursuant to our ATM, $25.0 million of gross proceeds from our debt refinancing, and $1.1 million of proceeds received from participants of our employee stock purchase plan and from the exercise of common stock options, partially offset by a $10.0 million repayment of the August 2017 Loan.

Cash used in financing activities of $2.4 million for the nine months ended September 30, 2019 was primarily related to commencement of the repayment of the August 2017 Loan in March 2019 of $3.5 million, partially offset by $1.3 million of proceeds received from participants of our employee stock purchase plan.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements, as defined under SEC rules.

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 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 filing, we believe that the following critical accounting policies are most important to understanding and evaluating our reported financial results.

Revenue Recognition

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 (now BMS), Merck and EMD Serono, and to a lesser extent, from manufacturing, supply and services and products we provide to Celgene, Vaxcyte and EMD Serono.

Collaboration revenue

We derive revenue from collaboration arrangements, under which we may grant licenses to our collaboration partners to further develop and commercialize our proprietary product candidates. We may also perform research and development activities under the collaboration agreements. Consideration under these contracts generally includes a nonrefundable upfront payment, development, regulatory and commercial milestones and other contingent payments, and royalties based on net sales of approved products. Additionally, the collaborations may provide options for the customer to acquire from us materials and reagents, clinical product supply or additional research and development services under separate agreements.

We assess which activities in the collaboration agreements are considered distinct performance obligations that should be accounted for separately. We develop assumptions that require judgement to determine whether the license to our intellectual property is distinct from the research and development services or participation in activities under the collaboration agreements.

At the inception of each agreement, we determine the arrangement transaction price, which includes variable consideration, based on the assessment of the probability of achievement of future milestones and contingent payments and other potential consideration. We also evaluate estimates of our resources, which are used as the basis of measurement for revenue to be recognized on a proportion of performance basis.

For arrangements that include multiple performance obligations, we allocate the transaction price to the identified performance obligations based on the standalone selling price, or SSP, of each distinct performance obligation. In instances where SSP is not directly observable, we develop assumptions that require judgment to determine the SSP for each performance obligation identified in the contract. These key assumptions may include full-time equivalent, or FTE, personnel effort, estimated costs, discount rates and probabilities of clinical development and regulatory success.

Upfront Payments: For collaboration arrangements that include a nonrefundable upfront payment, if the license fee and research and development services cannot be accounted for as separate performance obligations, the transaction price is deferred and recognized as revenue over the expected period of performance using a cost-based input methodology. We use judgement to assess the pattern of delivery of the performance obligation. In addition, amounts paid in advance of services being rendered may result in an associated financing component to the upfront payment. Accordingly, the interest on such borrowing cost component will be recorded as interest expense and revenue, based on an appropriate borrowing rate applied to the value of services to be performed by us over the estimated service performance period.

License Grants: For collaboration arrangements that include a grant of a license to our intellectual property, we consider whether the license grant is distinct from the other performance obligations included in the arrangement. For licenses that are distinct, we recognize revenues from nonrefundable, upfront payments and other consideration allocated to the license when the license term has begun and we have provided all necessary information regarding the underlying intellectual property to the customer, which generally occurs at or near the inception of the arrangement.

Milestone and Contingent Payments: At the inception of the arrangement and at each reporting date thereafter, we assess whether it should include any milestone and contingent payments or other forms of variable consideration in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur upon resolution of the uncertainty, the associated milestone value is included in the transaction price. At the end of each subsequent reporting period, we re-evaluate the probability of achievement of each such milestone and any related constraint and, if necessary, adjust our estimate of the overall transaction price. Since milestone and contingent payments may become payable to us upon the initiation of a clinical study or filing for or receipt of regulatory approval, we review the relevant facts and circumstances to determine when we should update the transaction price, which may occur before the triggering event. When we update the transaction price for milestone and contingent payments, we allocate the changes in the total transaction price to each performance obligation in the agreement on the same basis as the initial allocation. Any such adjustments are recorded on a cumulative catch-up basis in the period of adjustment, which may result in recognizing revenue for previously satisfied performance obligations in such period. Our collaborators generally pay milestones and contingent payments subsequent to achievement of the triggering event.

Research and Development Services: For amounts allocated to our research and development obligations in a collaboration arrangement, we recognize revenue over time using a cost-based input methodology, representing the transfer of goods or services as activities are performed over the term of the agreement.

Materials Supply: We provide materials and reagents, clinical materials and services to certain of our collaborators under separate agreements. The consideration for such services is generally based on FTE personnel effort used to manufacture those materials reimbursed at an agreed upon rate in addition to agreed-upon pricing for the provided materials. The amounts billed are recognized as revenue as the performance obligations are met by us.

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, development and manufacturing services and other consulting costs, we estimate the expenses based on the services performed, pursuant to contracts with research institutions and other third-party organizations that conduct and manage such external 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-based awards granted to employees based on the estimated fair value of the awards on the date of grant. We account for forfeitures of stock-based awards as they occur. 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 use 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 have limited information available on the volatility of our common stock due to its short trading history, the expected volatility is 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.

- *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 use an expected dividend yield of zero.

We will continue to use judgment in evaluating the expected volatility and expected terms utilized for our stock-based compensation calculations on a prospective basis.

There have been no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the year ended December 31, 2019.

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) in which we have total annual gross revenues of at least $1.07 billion, or (b) 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, (2) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period and (3) December 31, 2023.

Recent Accounting Pronouncements

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

Item 3. 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, cash equivalents and marketable securities of $202.4 million and $133.5 million as of September 30, 2020 and December 31, 2019, respectively, which consisted of money market funds, commercial paper, corporate debt securities, asset-based securities and U.S. government agency securities. Additionally, we had equity securities of $78.8 million as of September 30, 2020, consisting solely of common stock of Vaxcyte, which are subject to a lockup agreement into December 2020. Such interest earning instruments carry a degree of interest rate risk; however, historical fluctuations in interest income have not been significant.

Equity risk is the risk we will incur economic losses due to adverse changes in equity prices. Our potential exposure to changes in equity prices results from our Vaxcyte common stock holdings. Therefore, we are subject to market risk if such holdings materially decrease in value. We intend to manage equity price risk going forward by continuously evaluating market conditions.

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 market interest rates would not have a material impact on our financial statements. We do not believe that our cash, cash equivalents or marketable securities have significant risk of default or illiquidity.

As of September 30, 2020 and December 31, 2019, we had $24.4 million and $9.9 million, respectively, in debt outstanding, net of debt discount. Our debt with Oxford and SVB bears interest at a floating per annum rate equal to the greater of (i) 8.07% or (ii) the sum of (a) the greater of (1) 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 or (2) 1.67%, plus (b) 6.40%. This debt matures on March 1, 2024 and will be interest-only through March 1, 2022. 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.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosures controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of September 30, 2020. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2020, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

Management determined that, as of September 30, 2020, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. 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.

Item 1A. Risk Factors

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 quarterly report, including our financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. 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.

Summary of Risk Factors

Our business is subject to a number of risks and uncertainties, including those highlighted in the section titled "Risk Factors" immediately following this summary. Some of these risks are:

- The outbreak of the novel strain of coronavirus, SARS-CoV-2, which causes COVID-19, has had a minor impact on our business and w e experienced delays in enrollment and occasional delays in data entry by clinical trial sites, but overall patient enrollment and treatment remains on track.
- We have a limited operating history, a history of significant losses and may never achieve or maintain profitability.
- 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 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 proprietary XpressCF ® Platform and, in particular, our proprietary product candidates, STRO-001 and STRO-002.
- 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 to develop and commercialize certain product candidates are not successful, we may not be able to capitalize on the market potential of our XpressCF® Platform and the product candidates.
- We currently manufacture a portion of our product candidates internally and also rely on third-party manufacturing and supply partners to provide us with 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.
- 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.

- 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
- If we are unable to develop, obtain regulatory approval for or commercialize our product candidates, or experience significant delays in doing so, our business will be materially harmed.

Risks Related to Our Business

The outbreak of the novel strain of coronavirus, SARS-CoV-2, which causes COVID-19, could adversely impact our business, including our clinical trials and preclinical studies.

Public health crises such as pandemics or similar outbreaks could adversely impact our business. In December 2019, a novel strain of coronavirus, SARS-CoV-2, which causes coronavirus disease 2019, or COVID-19, surfaced in Wuhan, China. Since then, COVID-19 has spread to multiple countries, including the United States, and has been declared by the World Health Organization to be a pandemic, impacting worldwide economic activity. A pandemic, including COVID-19, or other public health epidemic poses the risk that we or our employees, contractors, suppliers, and other partners may be prevented from conducting business activities in whole or in part for an indefinite period of time, including due to spread of the disease within these groups or due to shutdowns that may be requested or mandated by governmental authorities. In response to the spread of COVID-19, we have modified operations in our executive offices with our administrative employees primarily continuing their work outside of those offices, restricted on-site research, development and manufacturing staff to only those required to execute their job responsibilities on-site for prioritized activities, limited the number and proximity of staff in any given laboratory or in our manufacturing facility (except as necessary for particular activities), and implemented multiple work place safety, social distancing and disinfection protocols. We have also begun to experience delays in enrollment and occasional delays in data entry by clinical trial sites, but overall patient enrollment and treatment remains on track.

As a result of the COVID-19 outbreak, or similar pandemics, we may experience disruptions that could severely impact our business, clinical trials and preclinical studies, including:

- Additional delays or difficulties in enrolling and retaining patients in our clinical trials;
- delays or difficulties in clinical site initiation, including difficulties in recruiting clinical site investigators and clinical site staff;
- changes in protocol-specified procedures that lead to missing data (e.g. reduced or postponed patient visits, missed lab tests and scans, patient discontinuation);
- increased rates of patients withdrawing from our clinical trials following enrollment as a result of contracting COVID-19, being forced to quarantine, losing insurance coverage or not accepting home health visits;
- diversion of healthcare resources away from the conduct of clinical trials, including the diversion of hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- interruption of key clinical trial activities, such as clinical assessments at pre-specified timepoints during the trial and clinical trial site data monitoring, due to limitations on travel imposed or recommended by federal or state governments, employers and others or interruption of clinical trial subject visits and study procedures (particularly any procedures that may be deemed non-essential), which may impact the integrity of subject data and clinical study endpoints;
- interruption or delays in the operations of the U.S. Food and Drug Administration and comparable foreign regulatory agencies, which may impact approval timelines;
- delays or disruptions in non-clinical experiments and investigational new drug application-enabling good laboratory practice standard toxicology studies;
- limitations on employee resources that would otherwise be focused on the conduct of our research, preclinical studies, clinical trials and manufacturing operations, including because of sickness of employees or their families, the desire of employees to avoid contact with large groups of people, an increased reliance on working from home or mass transit disruptions;
- interruption of, or delays in receiving, supplies of our product candidates or precursor molecules or other raw materials and the manufacture or shipment of both drug substance and finished drug product for our product candidates from either us or contract manufacturing organizations due to staffing shortages, production slowdowns, stoppages and disruptions in delivery systems or reallocation of global manufacturing resources to therapeutic or prophylactic treatments for COVID-19 resulting in reduced manufacturing capacity or shortages of raw materials; and

- reduced ability to engage with the medical and investor communities , including due to the cancellation of conferences scheduled throughout the year.

These and other factors arising from the COVID-19 pandemic could worsen in countries that are already afflicted with COVID-19, could continue to spread to additional countries, or could return to countries where the pandemic has been partially contained, each of which could further adversely impact our ability to conduct clinical trials and our business generally, and could have a material adverse impact on our operations and financial condition and results.

In addition, the trading prices for our common stock and other biopharmaceutical companies, as well as the broader equity and debt markets, have been highly volatile as a result of the COVID-19 pandemic and the resulting impact on economic activity. As a result, we may face difficulties raising capital when needed, and any such sales may be on unfavorable terms to us. Further, to the extent we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of existing stockholders will be diluted.

The COVID-19 outbreak continues to rapidly evolve. The extent to which the outbreak may impact our business, clinical trials, research activities, preclinical studies and manufacturing activities will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of COVID-19, the duration of the outbreak, travel restrictions and actions to contain the outbreak or treat its impact, such as social distancing and quarantines or lock-downs in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

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 enrolled a limited number of patients in our initial clinical trials, have no products approved for commercial sale, have not generated any revenue from commercial product sales and, as of September 30, 2020, had an accumulated deficit of $168.3 million. For the nine months ended September 30, 2020, our loss from operations was $46.2 million and our net income was $27.4 million, due principally to an unrealized gain of $78.6 million related to our holdings of Vaxcyte common stock. For the year ended December 31, 2019, our net loss was $55.7 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, evaluating the related commercial opportunities, obtaining regulatory approvals to market and commercializing 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.

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, 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 proprietary clinical-stage product candidates STRO-001 and STRO-002, and the development of our in-house manufacturing capabilities. Clinical trials for our product candidates will require substantial funds to complete. As of September 30, 2020, we had $202.4 million in cash, cash equivalents and marketable securities. 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, manufacturing, 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, cash equivalents and marketable securities 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 and research and development facilities 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
- 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 we entered into with Oxford and SVB in February 2020, under which we borrowed $25.0 million, prohibits us from incurring indebtedness without the prior written consent of Oxford 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 receive 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 product candidates, STRO-001 and STRO-002 are in the dose escalation phase of their respective Phase 1 clinical trials, and enrollment began in the second half of 2019 for patients in the Phase 1 clinical trial for the BCMA ADC candidate resulting from our BMS collaboration. Additionally, we have programs 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.

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 expertise and 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;
- occurrence of epidemics, pandemics or contagious diseases, such as the novel strain of coronavirus, and potential effects on our business, clinical trial sites, supply chain and manufacturing facilities;
- 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 in our clinical trials a sufficient response rate or duration of response;
- 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 proprietary 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 proprietary 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 future 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.

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 in the past and may in the future create benchmark molecules for comparative purposes. For example, we have created a benchmark folate receptor-alpha, or FolRα targeting antibody-drug conjugate, or 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' product candidates. However, we cannot be certain that any benchmark molecule that we create is the same as the molecule we are attempting to recreate, and the results of the tests comparing any such benchmark molecule to any other potential or current product candidate may be different than the actual results of a head-to-head test of any such other potential or current product candidate against a competitor molecule. Additional preclinical and clinical testing will be needed to evaluate the therapeutic index of our potential or current product candidates, and to understand its therapeutic potential relative to other product candidates in development. While we believe our ADCs may be superior to other investigative 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 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 candidates, STRO-001 and STRO-002, and our partner BMS has tested CC-99712 in a limited number of 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 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. Further, in our oncology clinical trials to date, we have used achievement of stable disease as

evidence for tumor control by our product candidates; however, the FDA does not qualify stable disease as an objective response for FDA approval.

We have presented initial and interim data from our STRO-001 Phase 1 trial in November 2019 and again in November 2020. As of July 31, 2020, most adverse events observed in the NHL cohort have been grade 1 or 2 (90%) with the most common grade 1-2 treatment emergent AEs of chills, fatigue, nausea, anemia, headache, pyrexia, infusion reaction, decreased appetite, and abdominal pain occurring in ≥ 20% of patients. Two dose limiting toxicities have been observed, one grade 3 (in the NHL cohort) and one grade 5 (in the multiple myeloma cohort) thromboembolic event. The thromboembolic events were in patients with very bulky disease and other pre-existing factors for thrombosis and the trial protocol was amended in April, 2019, to screen for, and treat, pre-existing thromboembolism/thrombotic events, and since the amendment, no additional thromboembolic events have been observed.

We have presented initial and interim safety data from our ongoing Phase 1 trial of STRO-002 in October 2019, April 2020 and September 2020. Based on initial data from the trial through August 31, 2020, STRO-002 was generally well tolerated and was mostly associated with mild adverse events. Eighty-seven percent (87%) of observed adverse events were grade 1 or grade 2 and prophylactic corticosteroid eyedrops have not been necessary. Grade 3 treatment emergent AEs included fatigue, neutropenia, arthralgia, abdominal pain, increased AST, diarrhea, and peripheral neuropathy. The only grade 4 treatment emergent AEs observed was neutropenia, in twelve patients. Neutropenia was generally reversible within one week without treatment with G-CSF.

If product candidates based on our XpressCF® Platform are unable to demonstrate sufficient safety and efficacy data to obtain marketing approval, 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. While certain relevant members of our company have significant clinical experience, we in general 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, competition in the therapeutic area(s) we have received or may receive approval for, 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 for an extended period of time. 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, a wholly owned subsidiary of Bristol Myers Squibb Company, New York, NY, or BMS, and Merck KGaA, Darmstadt Germany (operating in the United States and Canada under the name “EMD Serono”) to develop certain cancer and other 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. The FDA has allowed Phase 1 clinical trial use of our product candidates STRO-001 and STRO-002 and our partner BMS' CC-99712 product candidate, portions of which are manufactured in our San Carlos manufacturing facility; however, 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 for later stage clinical development or commercialization, and, therefore, the time frame 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, BMS 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 and discovery and preclinical programs. Substantially all of our revenue to date has been derived from our existing collaboration agreements with Merck, BMS 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, achieve milestones or earn contingent payments under our collaboration agreements, future revenue and cash resources 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. For example, Celgene, now BMS, was advancing four preclinical collaboration programs, one of which is an ADC targeting B-cell maturation antigen (CC-99712), or BCMA, for the treatment of multiple myeloma. BMS has worldwide development and commercialization rights with respect to this BCMA ADC, for which the FDA cleared the IND application and a Phase 1 clinical trial has commenced enrolling patients. In 2019, Celgene, now BMS, decided to not exercise the option to acquire U.S. clinical development and commercialization rights to a second collaboration program. Therefore, Celgene did not pay us the $12.5 million option maintenance fee due on IND clearance for the first collaboration program described above. Additionally, while BMS had ex-U.S. rights to three additional collaboration programs (BCMA-CD3, PD1-LAG3, and PD1-TIM3), since certain program milestones were not achieved by BMS by September 26, 2020, the ex-U.S. rights to those collaboration programs automatically reverted to us at no cost to us. Therefore, we now solely hold worldwide rights to the three programs. Our collaborator EMD Serono has recently announced that it is planning to advance a collaboration program, M1231, a MUC1-EGFR bispecific ADC, into Phase 1 clinical development in Q1 2021. EMD Serono has worldwide rights to M1231 and sole discretion in the clinical development and commercialization of this product. Our collaborators may have other marketed products and product candidates under collaboration with other companies, including some of our competitors, and their 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 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 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 the related lenders' 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, unstable political environments, or epidemics, pandemics, or contagious diseases, such as the COVID-19 outbreak. If we or our contract manufacturers were to encounter any of these difficulties, our ability to provide our product candidates to patients in 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.

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, timely availability of raw materials and other technical challenges. 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, such as epidemics, pandemics or contagious diseases, 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 most advanced clinical stage programs and our preclinical and 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 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 FolRα expression levels, we may be required to obtain FDA approval or clearance of a companion diagnostic, concurrent with approval of STRO-002, to test for elevated FolRα 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 recently entered into an agreement to develop diagnostic assays suitable for use as a companion diagnostic for STRO-002. 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. In addition, our partner BMS may be required to develop and obtain regulatory clearance for a companion diagnostic to assess BCMA expression in patients in connection with their development of CC-99712. Similarly, our partner EMD Serono may be required to develop and obtain regulatory clearance for companion diagnostics to assess MUC1 and EGFR expression in patients in connection with their development of M1231.

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 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 Amgen, AstraZeneca PLC, BMS, Gilead Sciences, Inc., GlaxoSmithKline PLC, Merck & Co., Inc., Novartis AG, Pfizer Inc., Roche Holding Ltd, Sanofi S.A, and companies focused on ADCs, such as AbbVie, Inc., Pfizer, Inc., GlaxoSmithKline PLC, Daiichi Sankyo Company, Limited, Takeda Pharmaceutical Company Limited, Genmab A/S, ImmunoGen, Inc., Seattle Genetics, Inc., Genentech, Inc., Immunomedics, Inc., ADC Therapeutics SA, Mersana Therapeutics, Inc., MacroGenics.Inc., and Zymeworks Inc., 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, cytokine derivatives, 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 most advanced 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 monoclonal antibodies such as Genentech's Herceptin; 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; and to CAR-T cell therapies such as Gilead's Yescarta. 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, immunomodulating agents, and monoclonal antibodies. 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 Albini, 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 September 30, 2020, we had 182 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 began our first clinical trials for our first two product candidates in 2018 and 2019. 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 manage 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 do not 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.

Price controls imposed in the U.S. may affect our future profitability.

Recently there has been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which has resulted in recent Executive Orders, 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. Current and future presidential budget proposals and future legislation may contain further drug price control measures that could be enacted. Congress and current and future U.S. presidential administrations may 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. If such pricing controls are enacted and are 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, inappropriately share confidential and proprietary information externally, 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 could have access to our confidential information. Our internal information technology systems and infrastructure, and those of our current and any future collaborators, CROs, 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 or our CROs or other contractors or consultants we may utilize 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. We are also aware of publicly disclosed security breaches at certain third-parties on which we rely, although we have not been informed of any resulting breach to our data. If such an event were to occur, whether to us or a third-party on which we rely, 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. 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 March 1, 2024 maturity date, at which time all amounts borrowed will be due and payable.

The Loan and Security Agreement we entered into in February 2020 with Oxford and SVB 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 involve 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, epidemic, pandemic or contagious disease, power shortage, telecommunication failure or other natural or man-made 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, epidemics, pandemics or contagious diseases, 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, epidemics, pandemics or contagious disease, or other events 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.

Changes in tax laws or regulations that are applied adversely to us or our customers may have a material adverse effect on our business, cash flows, financial condition or results of operations.

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, which could adversely affect our business and financial condition. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. For example, legislation enacted in 2017, informally titled the Tax Cuts and Jobs Act (the "2017 Tax Act"), enacted many significant changes to the U.S. tax laws. Future guidance from the Internal Revenue Service and other tax authorities with respect to the 2017 Tax Act may affect us, and certain aspects of the 2017 Tax Act may be repealed or modified in future legislation. For example, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), modified certain provisions of the 2017 Tax Act. In addition, it is uncertain if and to what extent various states will conform to the 2017 Tax Act or any newly enacted federal tax legislation. Changes in corporate tax rates, the realization of net deferred tax assets relating to our operations, the taxation of foreign earnings, and the deductibility of expenses under the 2017 Tax Act or future reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges, and could increase our future U.S. tax expense.

Our ability to use net operating loss carryforwards to offset taxable income could be limited.

We plan to use our current year operating losses to offset taxable income from any revenue generated from operations, including revenue from corporate collaborations. To the extent that our taxable income exceeds any current year operating losses, we plan to use our net operating loss carryforwards to offset income that would otherwise be taxable. Our net operating loss carryforwards generated in tax years ending on or prior to December 31, 2017, are only permitted to be carried forward for 20 years under applicable U.S. tax law. Under the 2017 Tax Act, as modified by the CARES Act, our federal net operating losses generated in tax years beginning after December 31, 2017, may be carried forward indefinitely, but the deductibility of such federal net operating losses generated in tax years beginning after December 31, 2020, is limited to 80% of taxable income. Net operating losses generated in taxable years beginning after December 31, 2017 and beginning on or prior to December 31, 2020 may be carried back up to five years. Net operating losses arising in taxable years beginning after December 31, 2020 may not be carried back under current law. It is uncertain if and to what extent various states will conform to the 2017 Tax Act or the CARES Act.

In addition, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, if we experience an "ownership change" which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, our ability to use our pre-change net operating loss carryforwards to offset our post-change income may be limited. Based on Section 382 studies performed for certain prior periods, it is more likely than not that we experienced an ownership change on April 9, 2007, and may have experienced other ownership changes in the past, and may experience ownership changes in the future as a result of equity offerings or other shifts in our stock ownership, some of which are outside our control. As a result, our use of federal NOL carryforwards could be limited. State net operating loss carryforwards may be similarly limited. In addition, at the state level, there may be periods during which the use of net operating losses is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. Any such limitations may result in greater tax liabilities than we would incur in the absence of such limitations and any increased liabilities could adversely affect our business, results of operations, financial position and cash flows.

Our investment in Vaxcyte is subject to risk

As of September 30, 2020, we held Vaxcyte common stock with a fair value of $78.8 million. Vaxcyte common stock is publicly traded and therefore subject to the various risk factors associated with any publicly traded company, including risks associated with Vaxcyte's business, its business outlook, cash flow requirements and financial performance, the state of the market and the general economic climate, including the impact of the COVID-19 pandemic. Further, our holdings in Vaxcyte are subject to a lockup agreement pursuant to which we have agreed not to sell such securities until 180 days following Vaxcyte's initial public offering, subject to certain exemptions.

Our financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States, or U.S. GAAP, are subject to interpretation by the Financial Accounting Standards Board, or the FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. For example, in May 2014, the FASB issued accounting standards update No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. We adopted this new accounting standard as of January 1, 2019. Any difficulties in implementing this guidance could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us. Additionally, the implementation of this guidance or a change in other principles or interpretations could have a significant effect on our financial results, and could affect the reporting of transactions completed before the announcement of a change. Furthermore, we have adopted Topic 606 through the modified retrospective method. This will impact the comparability of our financial results, which might lead investors to draw incorrect conclusions that could harm investor interest in holding or purchasing our equity.

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. 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.

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 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, portions of antibodies, cytokines, half-life extending polymers, linkers, cytotoxins, or other 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 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. As another example, we are aware of another issued patent, expected to expire in 2031, that relates to strained alkyne reagents that can be used as synthetic precursors for certain of our linker-warheads. 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 we 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 commenced a STRO-002 Phase 1 trial focused on ovarian and endometrial cancers in March 2019. 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;
- a temporary U.S. federal government shutdown;
- 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;
- 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 meeting 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;
- epidemics, pandemics or contagious diseases, such as COVID-19; 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, and may be further delayed due to one or more temporary federal government shutdowns. 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 strategy, 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 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 called 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 Medicare Part D coverage gap discount program, in which manufacturers must agree to offer point-of-sale discounts (now 70%) 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 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. 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 2029 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 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 contained further drug price control measures that could be enacted in 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 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; effective January 1, 2022, transfers of value to physician assistants, nurse practitioners or clinical nurse specialists, certified registered nurse anesthetists, and certified nurse-midwives must also be reported;
- 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.

Changes in privacy laws, regulations and standards may cause our business to suffer.

Personal privacy and data security have become significant issues in the United States, Europe and in many other jurisdictions. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. The California Consumer Privacy Act of 2018 ("CCPA") has created new individual privacy rights and places increased privacy and security obligations on entities handling personal data. The CCPA may significantly impact our business activities and require substantial compliance costs that adversely affect our business, operating results, prospects and financial condition. Industry organizations also regularly adopt and advocate for new standards in this area. In the United States, these include rules and regulations promulgated under the authority of federal agencies and state attorneys general and legislatures and consumer protection agencies. Internationally, many jurisdictions in which we operate have established their own data security and privacy legal framework with which we or our customers must comply, including but not limited to, the European General Data Protection Regulation, which imposes additional obligations and risks upon our business. In many jurisdictions, enforcement actions and consequences for noncompliance are also rising. In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually applies to us. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable privacy and data security laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, and adversely affect our business.

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 biological products (both highly similar 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. The BPCIA provides a period of exclusivity for products granted “reference product exclusivity,” under which an application for a biosimilar product referencing such products cannot be approved by the FDA until 12 years after the first licensure date of the reference product licensed under a BLA. On March 6, 2015, the FDA approved the first biosimilar product under the BPCIA. FDA has accelerated licensure of biosimilar products since the first biosimilar was approved in 2015. However, FDA has yet to deem a biosimilar product interchangeable with the reference product. While FDA has implemented certain procedures intended to implement the BPCIA, other processes remain in development and may be adopted by the FDA; any such processes could have a material adverse effect on the future commercial prospects for our biological products.

A biological product submitted for licensure under a BLA is eligible for a period of exclusivity that commences on the date of its licensure, unless its date of licensure is not considered a date of first licensure because it falls within an exclusion under the BPCIA. There is a risk that this exclusivity could be shortened due to congressional action or otherwise, 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. Most states have enacted substitution laws that permit substitution of only interchangeable biosimilars. The extent to which a highly similar 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 candidates, 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 trials for our first two product candidates. Given the nature of ADCs, it is likely that there may be side effects associated with their 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 trials 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 box 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.

While we have been granted Orphan Drug Designation by the FDA for STRO-001 for the treatment of multiple myeloma, if we decide to seek Orphan Drug Designation for some of our other product candidates, we may be unsuccessful or may be unable to maintain the benefits associated with Orphan Drug Designation, including the potential for orphan drug exclusivity.

We have been granted Orphan Drug Designation by the FDA for STRO-001 for the treatment of multiple myeloma. As part of our business strategy, we may seek Orphan Drug Designation for our other 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%. This may further limit the advantage and may impact our future business strategy of seeking the Orphan Drug Designation.

Risks Related to Our Common Stock

Our quarterly and annual 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 and annual fluctuations. Our net income or 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;
- epidemics, pandemics or contagious diseases, such as COVID-19; and
- changes in general market and economic conditions.

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

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 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, to the fullest extent permitted by law, provides that the Court of Chancery of the State of Delaware is 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 internal affairs doctrine. Furthermore, our amended and restated bylaws 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 (a Federal Forum Provision). While the Supreme Court of the State of Delaware has held that such provisions are facially valid under Delaware law, there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case; application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court.

These choice of forum provisions 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 against us and our directors, officers, employees and agents even though an action, if successful, might benefit our stockholders. Stockholders who do bring a claim in the specified courts could face additional litigation costs in pursuing any such claim. The specified courts may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. Alternatively, if a court were to find these provisions of our governance documents inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could have a material adverse effect on our business, financial condition or results of operations.

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.

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.

General Risk Factors

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 may 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 purchase price. The market price for our common stock may be influenced by many factors, including the other risks described in this section 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;
- 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 current or 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, epidemics, pandemics or contagious diseases, and other calamities;
- a temporary federal government shutdown; 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.

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.

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

Sales of a substantial number of shares of our common stock in the public market could occur at any time. If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our common stock in the public market, the market price of our common stock could decline significantly.

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.

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 have any control over the analysts or the content and opinions included in their reports. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, financial condition and results of operations, 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.

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 our periodic reports, registration statements 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.

We could be an emerging growth company for up to five years following the completion of the initial public 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 30th, 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 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 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.

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 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. 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 required to comply with the SEC's rules that implement Section 404(a) of the Sarbanes-Oxley Act, and are therefore required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Pursuant to Section 404(a), we are 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 comply with the applicable provisions of Section 404 for this filing, we engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we have dedicated internal resources; engaged outside consultants and adopted 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 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.

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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Unregistered Sales of Equity Securities

None

Use of Proceeds

On October 1, 2018, we completed our IPO and sold 5,667,000 shares of common stock at an IPO price of $15.00 per share. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to registration statements on Form S-1 (File Nos. 333-227103 and 333-227548), which was declared effective by the SEC on September 26, 2018.

There has been no material change in the planned use of proceeds from our IPO as described in the Prospectus filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act on September 27, 2018.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed or furnished as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, below.

Exhibit Number	Description	Form	File No.	Exhibit Filing Date	Exhibit No.	Filed/Furnished Herewith
10.1	Sublease Agreement, dated September 3, 2020, by and between the Company and Five Prime Therapeutics, Inc.					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	The cover page from this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline XBRL and contained in Exhibit 101.					X

* This certification is deemed not filed for purposes of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUTRO BIOPHARMA, INC.

Date: November 4, 2020

By: /s/ William J. Newell
William J. Newell
Chief Executive Officer

Date: November 4, 2020

By: /s/ Edward C. Albini
Edward C. Albini
Chief Financial Officer

SUBLEASE

THIS SUBLEASE (this "**Sublease**") is made and entered into this 3rd day of September, 2020, by and between Five Prime Therapeutics, Inc., a Delaware corporation ("**Sublandlord**"), and Sutro Biopharma, Inc., a Delaware corporation ("**Subtenant**").

RECITALS

A. HCP OYSTER POINT III LLC, a Delaware limited liability company ("**Master Landlord**"), and Sublandlord entered into that certain Lease dated as of December 12, 2016 (the "**Master Lease**"), for the lease of a certain four-story building containing approximately 115,466 rentable square feet with an address of 111 Oyster Point Boulevard, South San Francisco, California. A copy of the Master Lease is attached as **Exhibit A** hereto.

B. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Master Lease.

C. Sublandlord desires to sublease to Subtenant, and Subtenant desires to sublease from Sublandlord, the Premises, on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the recitals set forth above, the agreements set forth below and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublandlord and Subtenant hereby agree as follows:

1. Sublease. Subject and pursuant to the provisions hereof, Sublandlord hereby subleases to Subtenant, and Subtenant subleases from Sublandlord, the Premises. For purposes of this Sublease, the rentable square feet of the first, second and third floors, elevators and fifth floor utility mezzanine of the Building (the "**Initial Premises**") is conclusively deemed to be 85,755 rentable square feet of space, and the rentable square feet of the fourth floor of the Building (the "**Expansion Premises**") is conclusively deemed to be 29,711 rentable square feet of space. The rentable square feet of the Premises, consisting of the Initial Premises and the Expansion Premises, and together constituting the Building, is conclusively deemed to be 115,466 rentable square feet of space. Together with its use of the Premises, Subtenant shall have the non-exclusive right to use its pro rata share (i.e., 74.27% prior to the Expansion Premises Commencement Date and 100% thereafter) of the generator serving the Building. Prior to the Expansion Premises Commencement Date, Sublandlord shall have the non-exclusive right to use its pro rata share (i.e., 25.73%) of the generator serving the Building. Prior to the Expansion Premises Commencement Date, Sublandlord shall have the non-exclusive right to use the lobby and passenger elevators in the Initial Premises as needed for ingress and egress to the Expansion Premises, the freight elevator and loading dock in the Initial Premises as needed for deliveries to the Expansion Premises, and the stair wells and other emergency exits in the Premises as needed for ingress and egress to the Building, Expansion Premises and, until the Delivery Date only, the Data Room (as defined in Section 13.13 below) (collectively with the Data Room, the "**Shared Areas**"). In addition, until December 31, 2020 only, Sublandlord shall have the non-exclusive right to use the Shared Areas for the purposes set forth in the preceding sentence in connection with Sublandlord's use of the Lab Space (as defined in Section 13.14 below). Sublandlord's use of the Shared Areas shall be subject to Subtenant's reasonable rules and regulations. The Shared Areas are depicted on **Exhibit**

C hereto. Operating Costs associated with the Shared Areas shall be allocated as set forth in Section 3.2.1.

2. Term.

2.1 Delivery. Sublandlord shall vacate and deliver the Initial Premises (including the Data Room, but excluding the Lab Space) in the required condition on or before October 1, 2020) (the "**Delivery Date**") and the Expansion Premises in the required condition on the earlier of the date that is twenty four (24) months after the Initial Premises Commencement Date or the date set forth in Subtenant's acceleration notice provided under Section 2.2 below. Sublandlord shall vacate and deliver the Lab Space in the required condition on or before December 31, 2020.

2.2 Commencement and Expiration. The term of this Sublease for the Initial Premises shall commence on the date (the "**Initial Premises Commencement Date**") which is the last to occur of (a) the date nine (9) months after the date of the written consent of Master Landlord to this Sublease (the "**Consent Date**"), (b) the date that is seven (7) months after the Delivery Date and (c) April 1, 2021. The term of this Sublease for the Expansion Premises (the "**Expansion Premises Commencement Date**") shall commence on the date which is the later of twenty-four (24) months following the Initial Premises Commencement Date and the date Sublandlord delivers the Expansion Premises in the required condition; provided, however, that Subtenant shall have the right to accelerate the Expansion Premises Commencement Date to an earlier date upon six (6) months' prior written notice to Sublandlord (which acceleration notice shall be irrevocable, once given). Until the Expansion Premises Commencement Date, references in this Sublease to Subtenant's obligations with respect to the "Premises" shall mean only the "Initial Premises". The term of this Sublease (the "**Term**") for the Initial Premises and the Expansion Premises shall commence on their respective commencement dates and continue until December 31, 2027 (the "**Expiration Date**"), unless sooner terminated pursuant to the provisions hereof. Notwithstanding any provision to the contrary contained herein, if for any reason the Consent Date shall not occur, Sublandlord shall not be subject to any liability therefor. Subtenant shall have access to the Premises twenty-four (24) hours a day, three hundred sixty-five (365) days a year.

2.3 Early Access. Sublandlord agrees to cooperate with Subtenant to allow Subtenant access to the Initial Premises from the day following the Consent Date to the Delivery Date and deliver exclusive possession of the Initial Premises, including the Data Room (but excluding the Lab Space), on the Delivery Date, for design and construction purposes and for the purposes of the installation of furniture, fixtures and equipment and preparing the Initial Premises for occupancy (the "**Early Access Activities**"), provided that Subtenant has first given Sublandlord at least one (1) business day's prior notice of any such access (for access prior to the Delivery Date only) and has first delivered to Sublandlord a certificate of insurance evidencing compliance with the insurance obligations herein. Such access (a) shall be solely for the Early Access Activities and not for the purposes of occupancy or possession of the Initial Premises, or of conducting business therein, and (b) shall be subject to and upon all the terms and conditions of this Sublease (including without limitation Section 11 hereof), except that Subtenant shall have no obligation to pay Base Rent or Additional Rent for the period prior to the Initial Premises Commencement Date; provided, however, that if Subtenant's pursuit of the Early Access Activities causes an increase of more than ten percent (10%) in the cost of utilities (including

without limitation water, electricity, heat or air conditioning) allocable to the Initial Premises on a square-foot basis (as compared to the average cost for such utilities over the prior three (3) months), Subtenant shall reimburse Sublandlord for such increase in the cost of utilities within thirty (30) days following Sublandlord's presentation of an invoice therefor (including reasonable supporting documentation), which invoice shall be presented to Subtenant within fifteen (15) days following each month of such Early Access Activities. The Early Access Activities shall be performed between the hours of 6:00 a.m. and 5:00 p.m. on business days, and shall be coordinated with Sublandlord. Subtenant's early access shall not affect or alter the Initial Premises Commencement Date, the Expansion Premises Commencement Date, the Expiration Date, or the Term.

2.4 **Acceleration of Initial Premises Commencement Date**. Notwithstanding anything in Section 2.2 or Section 2.3 to the contrary, but subject to Sublandlord's rights under Sections 13.3 and 13.4 hereof with respect to the use of the Data Room and the Lab Space, respectively, Subtenant shall have the right, upon not less than ten (10) days' prior written notice to Sublandlord, to elect to obtain exclusive possession of one or more floors of the Initial Premises (but not less than all of the Initial Premises on a floor) prior to the Initial Premises Commencement Date, and in such event Subtenant may occupy such portion of the Initial Premises for the conduct of business and shall be subject to all of the terms of this Sublease with respect thereto commencing ten (10) days after Sublandlord's receipt of such notice, except Subtenant shall pay to Sublandlord, (a) in advance, a pro-rata portion of the monthly Base Rent payable under this Sublease for such floor or floors on the first day of such occupancy (pro-rated for the number of days remaining in such month), and then on the first day of each succeeding calendar month, up to the Initial Premises Commencement Date at the same rate as payable immediately after the Initial Premises Commencement Date, and (b) in arrears, within thirty (30) days following Sublandlord's presentation of an invoice therefor, Subtenant's pro-rata portion of Additional Rent for such floor or floors for the period ending on the Initial Premises Commencement Date.

3. **Rent**.

3.1 **Base Rent**. From and after the Initial Premises Commencement Date, during each month of the Term of this Sublease, Subtenant shall pay as base rent for the Premises ("**Base Rent**") as follows:

Months	Premises (RSF)	Monthly Base Rent Per Square Foot	Monthly Base Rent
1 – 6	85,755	$4.95	$424,487.25
7 – 12*	85,755*	$4.95*	$424,487.25*
13 – 24*	85,755*	$5.12*	$439,344.30*
25 – 36**	115,466	$5.30	$612,265.83
37 - 48	115,466	$5.49	$633,695.13
49 - 60	115,466	$5.68	$655,874.46

Months	Premises (RSF)	Monthly Base Rent Per Square Foot	Monthly Base Rent
61 - 72	115,466	$5.88	$678,830.07
73 –	115,466	$6.08	$702,589.12
Expiration Date			

*****Provided that Subtenant is not in default beyond applicable notice and cure periods of the terms and conditions of this Sublease**,** Sublandlord agrees to abate the obligation of Subtenant to pay Base Rent for months 7-18 of the Term (the "**Conditional Rent**"). Notwithstanding the foregoing, however, during such abatement period, Subtenant shall be responsible for the payment of all Additional Rent allocable to the Premises then subleased hereunder. In the event of a default by Subtenant beyond any applicable notice and cure periods and the expiration or earlier termination of this Sublease, Sublandlord shall be entitled to recover the unamortized portion of the Conditional Rent (i.e., the unamortized portion of the Conditional Rent shall be deemed not to have been abated, and shall become immediately due and payable as unpaid Rent earned, but due at the time of such default).

*The above chart assumes that the Expansion Premises Commencement Date occurs on the first day of the twenty-fifth (25th) month of the Term of this Sublease. If the Expansion Premises Commencement Date occurs on an earlier or later date, the above chart shall be deemed adjusted to provide for Subtenant to pay Base Rent on the increased square footage commencing on the Expansion Premises Commencement Date only.

Base Rent and Additional Rent shall be paid to Sublandlord without demand, deduction, set-off or counterclaim, in advance on the first day of each calendar month during the Term of this Sublease, and in the event of a partial rental month, Base Rent and Additional Rent shall be prorated on the basis of a 365-day year. If Base Rent or Additional Rent abates under the Master Lease as to a portion of the Premises as to which this Sublease has commenced, Base Rent or Additional Rent, as the case may be, shall abate on a pro-rata basis under this Sublease. If Sublandlord does not deliver the Lab Space to Subtenant in the required condition on or before December 31, 2020, Subtenant shall be entitled to a day-for-day credit in its Base Rent and Additional Rent obligations (calculated on a pro-rata rentable square foot basis) for the period commencing on January 1, 2021 and ending on the date on which Sublandlord delivers the Lab Space to Subtenant in the required condition.

3.2 **Operating Costs And Expenses**.

3.2.1 Subtenant shall pay to Sublandlord as additional rent hereunder Subtenant's pro rata share of (i) Tenant's Share of Direct Expenses (as defined in the Master Lease) payable by Sublandlord under the Master Lease, and (ii) utilities (including any applicable taxes thereon) contracted through Sublandlord. Subtenant's pro rata share shall mean that amount, expressed as a percentage, equal to the number of square feet included in the Premises then subleased by Subtenant divided by the number of square feet leased by Sublandlord under the Master Lease (i.e., 74.27% prior to the prior to the Expansion Premises Commencement Date, and 100% after the Expansion Premises Commencement Date). Such amounts of Direct Expenses shall be payable in advance on the first day of each calendar month during the Term of this Sublease in accordance with Article 4 of the Master Lease. Sublandlord shall promptly forward

all Estimate Statements, Statements, invoices and backup documentation received from Master Landlord regarding Tenant's Share of Direct Expenses. Subtenant shall be entitled to all credits, if any, given by Master Landlord to Sublandlord for Sublandlord's overpayment of any amounts under the Master Lease to the extent allocable to the portion of the Premises as to which this Sublease has commenced and to the extent paid by Subtenant.

In the event that the Term shall expire or earlier terminate on any date other than December 31, Subtenant's obligations under this Section 3.2.1 for such calendar year shall be prorated on the basis of the number of days elapsed during such calendar year prior to and including the date of expiration or termination.

3.2.2 In addition to the amounts payable under Section 3.2.1, Subtenant shall pay to Sublandlord within thirty (30) days of receipt of Sublandlord's written invoice therefor, (i) any charges, costs, fees or expenses for which Sublandlord is charged under the Master Lease to the extent attributable to the portion of the Premises as to which this Sublease has commenced, including, without limitation, personal property taxes (but excluding any charges due to Sublandlord's acts or omissions, including violation of the Master Lease that were not due to Subtenant's violation of the Master Lease), and (ii) any and all charges of Master Landlord or other amounts payable to Master Landlord under the Master Lease caused by Subtenant's failure to perform its obligations under this Sublease.

3.2.3 Any and all amounts paid by Sublandlord under the Master Lease for Direct Expenses shall be conclusively deemed to be accurate and binding upon Subtenant for purposes of interpretation of this Section 3, subject to Subtenant's right to require Sublandlord to perform an audit, at Subtenant's expense, pursuant to Section 4.6 of the Master Lease, which Sublandlord shall do promptly upon request by Subtenant and Sublandlord shall promptly share the results of such audit with Subtenant. All forms of Additional Rent and any other amounts payable by Subtenant to Sublandlord shall be payable by Subtenant without deduction, offset or abatement (except as expressly set forth in this Sublease or the provisions of the Master Lease incorporated herein) in lawful money of the United States to Sublandlord at such places and to such persons as Sublandlord may direct. All such amounts, together with Base Rent, are collectively referred to herein as "Rent."

3.2.4 If Subtenant fails to pay any installment or other payment of rent to Sublandlord when due, such unpaid amount shall be subject to late charges and shall bear interest in accordance with Article 25 of the Master Lease, as incorporated herein. All interest and late charges accrued under this Section shall be deemed to be Additional Rent payable hereunder.

3.2.5 Sublandlord and Subtenant acknowledge and agree that the Master Lease is a single-tenant lease, and that (a) under Section 7.1 thereof, "Tenant" is responsible for maintaining the non-structural portion of the roof, the Building Systems, the Shared Areas and other items, and (b) under Section 6.2 thereof, "Tenant" is responsible for directly contracting for utilities for the Building (it being acknowledged by Sublandlord and Subtenant that as of the date hereof, Master Landlord contracts for electricity and bills Sublandlord, as "Tenant" under the Master Lease). Commencing on the Initial Premises Commencement Date, Subtenant shall be responsible for performing all obligations of "Tenant" under Sections 7.1 and 6.2 of the Master Lease, as incorporated herein. Prior to the Initial Premises Commencement Date, Sublandlord

and Subtenant shall cooperate to install a separate sub-meter (such as an Emon Dmon) for electricity on the fourth (4th) floor of the Premises and, following the Initial Premises Commencement Date and prior to the Expansion Premises Commencement Date, each of Sublandlord and Subtenant shall pay the portion of electricity charges included in Operating Expenses (based on the electricity sub-meter) for its respective floor or floors. Until the Expansion Premises Commencement Date, Sublandlord shall be responsible for paying Subtenant within thirty (30) days of receipt of Subtenant's written invoice therefor for (i) its allocable share of such management, repair and maintenance (including any necessary replacements) and (ii) utility costs (other than electricity, which is addressed in the preceding sentence) based upon actual consumption, as equitably and reasonably determined by Subtenant and supported by reasonable documentation. Sublandlord shall be obligated to pay one hundred percent (100%) of any costs to make any repairs due to Sublandlord's negligence, willful misconduct, damage or misuse. The terms of Section 6.3 of the Master Lease shall apply as between Sublandlord (as "Tenant") and Subtenant (as "Landlord") with respect to the performance of the above work by Subtenant.

3.3 **Security Deposit**. Within three (3) business days after the Consent Date, Subtenant shall deposit with Sublandlord $857,290.50 (the "**Security Deposit**") as security for Subtenant's faithful performance of Subtenant's obligations hereunder either in cash or, at Subtenant's election, in the form of a letter of credit, in which case the terms of Article 21 of the Master Lease, as incorporated herein, shall apply. Sublandlord approves Silicon Valley Bank as the issuing Bank and references in such Article to Wells Fargo Bank shall refer to such bank. If Subtenant fails to pay Rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Sublease, in either case beyond applicable notice and cure periods, Sublandlord may use, apply or retain all or any portion of the Security Deposit for the payment of Rent or any other charge in default or for the payment of any other sum to which Sublandlord may become obligated by reason of Subtenant's default, to compensate Sublandlord for any loss or damage which Sublandlord may suffer or reasonably estimates that it will suffer thereby or to compensate Sublandlord for any and all damages arising out of, or incurred in connection with, the termination of this Sublease, including without limitation those specifically identified in Section 1951.2 of the California Civil Code. If Sublandlord so uses or applies all or any portion of the Security Deposit, Subtenant shall within ten (10) business days after written demand therefor deposit cash with Sublandlord in an amount sufficient to restore the Security Deposit to its full amount, and Subtenant's failure to do so shall be a material breach of this Sublease. Sublandlord shall not be required to keep the Security Deposit separate from its general accounts and the Security Deposit shall not bear interest. At the expiration of the Term hereof and following performance of all of Subtenant's obligations hereunder (including without limitation vacation of the Premises in accordance with the provisions of this Sublease, the Security Deposit, or so much thereof as has not theretofore been applied by Sublandlord, shall be returned to Subtenant (or at Sublandlord's option, to the last assignee, if any, of Subtenant's interest hereunder). No trust relationship is created herein between Sublandlord and Subtenant with respect to the Security Deposit. Subtenant hereby irrevocably waives the provisions of Section 1950.7 of the California Civil Code and any successor statute, and all other provisions of law, now or hereafter in effect, that (a) establish the time frame by which a landlord must refund a security deposit under a lease, and/or (b) provide 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 premises, it being agreed that Sublandlord may, in addition, claim those sums specified

in this Section 3.3 and/or those sums reasonably necessary to (i) compensate Sublandlord for any loss or damage caused by Subtenant's breach of this Sublease, including any damages Sublandlord suffers following termination of this Sublease, and/or (ii) compensate Sublandlord for any and all damages arising out of, or incurred in connection with, the termination of this Sublease, including those specifically identified in Section 1951.2 of the California Civil Code.

4. **Use**. Subtenant shall use and occupy the Premises only for the purposes set forth in Article 5 of the Master Lease and for no other purpose without Master Landlord's and Sublandlord's prior written consent, which may be withheld in their respective sole discretions. Subtenant shall be responsible for obtaining any and all permits required for its operations.

5. **Parking**.

5.1 **Spaces**. Under the Master Lease, Sublandlord has the right to use 291 unreserved parking spaces, including five (5) dedicated visitor parking spaces. From the Initial Premises Commencement Date to the Expansion Premises Commencement Date, such parking spaces shall be allocated as follows: (a) Subtenant shall have the right to use 218 unreserved parking spaces, and Sublandlord shall have the right to use the remaining 73 unreserved parking spaces; and (b) Subtenant shall have right to use four (4) dedicated visitor parking spaces, and Sublandlord shall have the right to use the remaining one (1) dedicated visitor parking spaces. On and after the Expansion Premises Commencement Date, Subtenant shall have the right to use all 291 unreserved parking spaces, including all five (5) dedicated visitor parking spaces.

5.2 **Compliance**. Subtenant shall strictly comply (and cause each of its employees, contractors, representatives, and invitees using such privileges to strictly comply) with Article 28 of the Master Lease and all rules, regulations and requirements of Master Landlord with respect to use of the Parking Spaces and other matters relating thereto.

6. **Subtenant Signage**. Subtenant shall have the right to all signage set forth in Article 23 of the Master Lease with respect to the Building. All signage of Subtenant, if any shall (a) be subject to the terms of the Master Lease, Sublandlord's and Master Landlord's approval as to design, composition, size and location (which approval by Sublandlord shall not be required if Master Landlord provides its approval), and (b) be undertaken at Subtenant's sole cost and expense, including, without limitation, all costs of installation, maintenance, repair, restoration and removal. Sublandlord shall, at its sole cost, remove its Building monument and other signage (i) in and about the Building (other than within the Expansion Premises) on or before the Initial Premises Commencement Date and (ii) in the Expansion Premises on or before the Expansion Premises Commencement Date.

7. **Broker Commissions**. Sublandlord represents and warrants that it has dealt with no broker in connection with this Sublease and the transactions contemplated herein except for Jones Lang LaSalle ("**Sublandlord's Broker**"). Subtenant represents and warrants that it has dealt with no broker in connection with this Sublease and the transactions contemplated herein other than Kidder Mathews and Sublandlord's Broker. Sublandlord shall bear the costs of commissions due to such brokers as a result of this Sublease. Each party shall indemnify, defend and hold the other party free and harmless from and against any claim, loss, damage, liability, obligation, cost

or expense, including attorneys' fees suffered, incurred or asserted arising from its breach of the representation and warranty set forth in this Section 7.

8. Condition Of Premises. Sublandlord represents and warrants to Subtenant that, on the date hereof, to Sublandlord's actual knowledge, without investigation, the roof of the Building does not leak and the Premises do not violate any applicable building code. Sublandlord shall deliver (a) the Initial Premises (including the Data Room, but excluding the Lab Space) to Subtenant in vacant, broom clean condition, decommissioned, and with the plumbing, electrical systems, fire sprinkler system, elevator system, lighting, air conditioning, heating and all other building systems serving the Premises in good operating condition and repair, (b) the Expansion Premises to Subtenant in vacant, broom clean condition and decommissioned, and (c) the Lab Space to Subtenant in vacant, broom clean condition and decommissioned (in each case, as otherwise in substantially the same condition as of the date of this Sublease, the "**required condition**"). Subtenant has inspected the Premises and all improvements located therein, and has agreed to accept the Premises in an "AS-IS" condition, in its condition existing as of the date of this Sublease subject to all applicable municipal, county, state and federal laws, ordinances and regulations governing and regulating the use and occupancy of the Premises, and accepts the Sublease subject thereto and to all matters disclosed thereby, without warranty or representation concerning the same, except as set forth in the first and second sentences of this Section 8. Except as may be required to comply with the terms of the Master Lease that Subtenant is not yet obligated to perform or to comply with the delivery obligations in the second sentence of this section, Sublandlord shall have no obligation whatsoever to make or pay the cost of any alterations, improvements or repairs to the Building, the Common Areas or the Premises, including without limitation any improvement or repair required to comply with any law, regulation, building code or ordinance (including without limitation the Americans with Disabilities Act of 1990); provided, however, that Sublandlord's obligation to deliver the building systems serving the Premises in good working order as required under the first (1st) sentence of this Section 8 shall include the obligation to perform the work described in **Exhibit F** before the Delivery Date.

9. Master Lease.

9.1 Compliance With Master Lease. Except as otherwise expressly provided herein, the terms of the Master Lease shall be incorporated herein as if fully set forth herein, except that (i) each reference to this "Lease", and the "Lease Term", "Base Rent" and "Additional Rent" shall be deemed a reference to this "Sublease", the Term of this Sublease and the Base Rent and Additional Rent under this Sublease, respectively, (ii) prior to the Expansion Premises Commencement Date, each reference to the Premises shall be deemed a reference to the Initial Premises, (iii) each reference to "Landlord" and "Tenant" shall be deemed a reference to "Sublandlord" and "Subtenant", respectively, (iv) each reference to the Lease Commencement Date and Rent Commencement Date shall be deemed a reference to the Initial Premises Commencement Date, as to the Initial Premises, and the Expansion Premises Commencement Date, as to the Expansion Premises and (iv) wherever there is a requirement to pay the costs and expenses of "Landlord," Subtenant shall only be obligated to pay Master Landlord's costs and expenses and not both Sublandlord's and Master Landlord's costs and expenses; provided, however, Sublandlord shall cooperate reasonably to provide a waiver for Subtenant's lender(s) and equipment lessor(s) and Subtenant shall also pay Sublandlord's actual reasonable attorneys' fees to review such waivers. In the event of a conflict between the express provisions of this Sublease

and the provisions of the Master Lease incorporated herein, as between Sublandlord and Subtenant, the provisions of this Sublease shall control. Subtenant shall comply with and perform, for the benefit of Master Landlord and Sublandlord, all of such terms, covenants, conditions and obligations of the "Tenant" under the Master Lease, as incorporated herein, allocable or applicable to the Initial Premises or the Premises, as the case may be. Except as otherwise expressly provided hereunder, or as the context of this Sublease directly indicates otherwise, all of the obligations and rights imposed on or granted to the "Tenant" under the Master Lease, as incorporated herein, with respect to the portion of the Premises as to which this Sublease was commenced are hereby imposed on or granted to Subtenant and all of the obligations and rights imposed on or granted to the "Landlord" under the Master Lease, as incorporated herein, with respect to the portion of the Premises as to which this Sublease has commenced are hereby imposed on or granted hereunder to Sublandlord.

9.1.1 Sublandlord shall have no duty to perform any obligations of Master Landlord which are, by their nature, the obligation of an owner or manager of real property, and the term "Landlord" shall mean Master Landlord only and not Sublandlord in those Sections of the Master Lease as incorporated herein specified in Section 9.2 below. Accordingly, Sublandlord shall not be required to (a) provide the work, services, repairs, restoration, or capital improvements which the Master Landlord is required to provide under the Master Lease or (b) procure and maintain the insurance which the Master Landlord is required to procure and maintain under the Master Lease. In the event of any default or failure of performance by Master Landlord in its obligations under the Master Lease, the sole obligation of Sublandlord shall be to request the same in writing from Master Landlord as and when requested to do so by Subtenant, and to use Sublandlord's reasonable efforts (provided Subtenant pays all reasonable costs incurred by Sublandlord in connection therewith) to obtain Master Landlord's performance. If, after receipt of written request from Subtenant, Sublandlord shall fail or refuse to take action for such enforcement of the Master Lease, Subtenant shall have the right to take such action in its own name, and for that purpose and only to such extent, all of the rights of Sublandlord as "Tenant" with respect to the Premises under the Master Lease hereby are conferred upon and assigned to Subtenant, and Subtenant hereby is subrogated to such rights to the extent that the same shall apply to the Premises.

9.1.2 Sublandlord shall have no liability to Subtenant with respect to (a) representations and warranties made by Master Landlord under the Master Lease, (b) any indemnification obligations of Master Landlord under the Master Lease or other obligations or liabilities of Master Landlord with respect to compliance with laws, condition of the Premises or Hazardous Materials, or (c) Master Landlord's repair, maintenance, restoration, upkeep, insurance and similar obligations under the Master Lease, regardless of whether the incorporation of one or more provisions of the Master Lease into the Sublease might otherwise operate to make Sublandlord liable therefor. Sublandlord acknowledges that, pursuant to the provisions of Section 9.2 below, certain indemnification obligations of the "Landlord" under the Master Lease are incorporated by reference into this Sublease as obligations of Sublandlord to Subtenant under this Sublease.

9.1.3 Wherever the Master Lease grants to Sublandlord a specified number days after notice or other time condition to perform an obligation under the Master Lease (excluding the payment or Base Rent and Tenant's Share of Direct Expenses, the time period

granted to Subtenant for performance of the corresponding obligation under this Sublease shall be shortened (a) by two (2) business days or two (2) calendar days, where such time period in the Master Lease is less than ten (10) business days or ten (10) calendar days, respectively (but not to less than two (2) days), or (b) by five (5) business days or five (5) calendar days, where such time period in the Master Lease is ten (10) or more business days or ten (10) or more calendar days, respectively. Any default notice or other notice of any obligations (including any billing or invoice for any Rent or any other expense or charge due under the Master Lease) from Master Landlord which is received by Subtenant (whether directly or as a result of being forwarded by Sublandlord) shall constitute such notice from Sublandlord to Subtenant under this Sublease without the need for any additional notice from Sublandlord.

9.1.4 This Sublease is and at all times shall be subject and subordinate to the Master Lease and the rights of Master Landlord thereunder. Subtenant shall not commit or permit any of its agents, employees or contractors to commit any act or omission which if done or permitted by Sublandlord or its agents, employees or contractors would be (with notice, the passage of time or both) in violation of or a default by the "Tenant" under the Master Lease. Subtenant hereby agrees: (a) to comply with all provisions of the Master Lease, as incorporated herein, which are required to be performed by Subtenant hereunder; and (b) to perform all the obligations on the part of the Tenant to be performed under the terms of the Master Lease, as incorporated herein, during the Term of this Sublease which are required to be performed by Subtenant hereunder. If Subtenant shall default in the performance of any of its obligations under this Sublease, other than its obligation to pay Rent to Sublandlord, Sublandlord, without being under any obligation to do so and without thereby waiving such default, may remedy such default for the account and at the expense of Subtenant, without notice in a case of emergency and, in all other cases, if the default continues after three (3) days from the date of written notice thereof from Sublandlord.

9.1.5 With respect to any approval or consent required to be obtained from Master Landlord under the Master Lease, such approval or consent must be obtained from Master Landlord and Sublandlord, and the approval or consent of Sublandlord may be withheld if Master Landlord's approval or consent is not obtained. Such approvals and consents shall include, without limitation, all approvals and consents required with respect to Hazardous Materials and Transfers. With respect to Alterations, Sublandlord agrees that it will not withhold its consent to any Alternation approved by Master Landlord.

9.2 **Incorporation By Reference**. Notwithstanding any provision of this Sublease to the contrary, the following provisions of the Master Lease shall not be incorporated into this Sublease:

- Summary of Basic Lease Information, except for Sections 2.1, 2.2, 7 and 9
- Section 1.1.1
- Section 1.1.2 (first sentence)
- Section 1.1.4
- Section 1.2
- Section 1.3
- Section 1.4

- Article 2 (except for the definition of “Lease Year” in Section 2.1)
- Article 3 (except for the final sentence)
- Section 4.2.6
- Section 4.6
- All references to the "Tenant Work Letter"
- Section 6.1 (the first clause in the last sentence)
- Section 7.1 (the phrase “and Building” in the second line)
- Section 8.5 (last four sentences with respect to any property listed on Exhibit B)
- Section 10.7
- Section 14.4
- Section 18 (the first and third sentences)
- Section 19.5.2 (it being understood that Subtenant shall be entitled to abatement under such Section to the extent such abatement is received by Sublandlord under the Master Lease)
- Article 21 (unless Subtenant elects under Section 3.3 of this Sublease to provide the Security Deposit in the form of a letter of credit, in which case only Section 21.7 shall be deleted and the L-C Amount shall be the amount of the Security Deposit under this Sublease)
- Section 23.1 (the second to last sentence)
- Section 23.2 (the last sentence)
- Section 29.5 (after the first comma)
- Section 29.13 (the first sentence)
- Section 29.24
- Exhibit B
- Exhibit C;

and in the following provisions of the Master Lease the term Landlord shall refer to Master Landlord only (or both Master Landlord and Sublandlord, if so specified):

- Section 1.1.2(iv)
- Section 1.1.3
- Section 1.2
- Section 4.1.2
- Section 4.2
- Section 4.3
- Section 4.4
- Section 4.5 (both Master Landlord and Sublandlord)
- Section 5.2
- Section 5.3 (both Master Landlord and Sublandlord)
- Section 6.1 (first sentence and second paragraph only)
- Section 6.4 (both Master Landlord and Sublandlord)
- Section 7.4 (except for the first sentence of Section 7.3, which shall be both Master Landlord and Sublandlord)

- Article 8 (except for the first reference in the first sentence of Section 8.4, which shall be both Master Landlord and Sublandlord)
- Section 10.1 (both Master Landlord and Sublandlord)
- Section 10.2
- Section 10.4 (both Master Landlord and Sublandlord)
- Section 10.6
- Section 11.1 (the second, third and fourth sentences)
- Section 11.2
- Section 11.3 (the first reference)
- Article 13 (the first sentence)
- Section 15.2 (both Master Landlord and Sublandlord)
- Article 17 (both Master Landlord and Sublandlord)
- Article 18 (both Master Landlord and Sublandlord)
- Section 19.5.2 (both Master Landlord and Sublandlord)
- Section 23
- Section 24 (third sentence) (both Master Landlord and Sublandlord)
- Section 26.2 (both Master Landlord and Sublandlord)
- Section 29.26 (first sentence only)
- Section 29.29.1
- Section 29.31

In addition, in Section 14.3, with respect to future Transfers by Subtenant, Subtenant shall pay Master Landlord the entire premium payable to Master Landlord under the Master Lease, plus pay Sublandlord fifty percent (50%) of any remaining Transfer Premium.

9.3 **Termination of Master Lease**. If for any reason the term of the Master Lease is terminated prior to the Expiration Date of this Sublease, this Sublease shall thereupon terminate and Sublandlord shall not be liable to Subtenant by reason thereof for damages or otherwise (except where such termination results from a default under the Master Lease by Sublandlord through no fault of Subtenant or is otherwise a breach of the terms of this Sublease by Sublandlord) except that Sublandlord shall return to Subtenant that portion of any Rent paid in advance by Subtenant, if any, which is applicable to the period following the date of such termination and so much of the Security Deposit as Sublandlord is obligated to return in accordance with the provisions of this Sublease. So long as Subtenant complies with its obligations under this Sublease: (a) Sublandlord shall perform all of its obligations under the Master Lease not agreed to be performed by Subtenant hereunder to the extent required to keep the Master Lease in full force and effect during the Term; (b) Sublandlord shall not, without Subtenant's prior written consent, exercise any right to terminate the Master Lease, voluntarily terminate the Master Lease, or take any other action under the Master Lease that could materially adversely affect Subtenant's use or occupancy of the Premises or materially increase Subtenant's obligations or decrease Subtenant's rights; and (c) Sublandlord shall not agree to any amendment of the Master Lease which would materially adversely affect Subtenant's rights or obligations under this Sublease. Notwithstanding the foregoing, Sublandlord shall have no liability to Subtenant for its violation of the terms of this Section 9.3 if Master Landlord agrees that Subtenant

may remain in possession of the Premises on the same terms as this Sublease for the remainder of the Term.

9.4 **Surrender.** Subtenant shall surrender the Premises to Sublandlord broom- clean and in as good a condition as on the Initial Premises Commencement Date or Expansion Premises Commencement Date, as applicable, ordinary wear and tear, casualty and condemnation excepted, and free of Hazardous Materials caused by Subtenant to the extent required under the Master Lease. Prior to expiration or earlier termination of this Sublease, Subtenant shall (a) remove any Alterations, additions and improvements made by or at the request of Subtenant (whether or not made with Sublandlord's consent) to the extent required by Master Landlord, (b) remove all Subtenant's trade fixtures, equipment and personal property, and (c) restore the Premises to the condition described in the first sentence of this section, all at Subtenant's expense. In addition, and without limiting the foregoing, it is expressly agreed that Subtenant shall be obligated to remove any Alterations or any additions and improvements made by or at the request of Sublandlord as "Tenant" under the Master Lease (whether or not made with Master Landlord's participation of consent) or otherwise existing in the Premises on the Initial Premises Commencement Date to the extent required by Master Landlord. If the Premises are not so surrendered, then Subtenant shall be liable to Sublandlord for all cost incurred by Sublandlord (including any charges by Master Landlord under the Master Lease) in returning the Premises to such required condition, plus interest thereon at the rate of ten percent (10%) per annum.

9.5 **Hazardous Materials.** Subtenant shall use no Hazardous Materials in, on, under or about the Premises or the Building, except as permitted by Section 5.3 of the Master Lease, as incorporated therein. Subject to receipt of Master Landlord's consent, Sublandlord hereby approves of Subtenant's use of the Hazardous Materials on the form attached hereto as **Exhibit D**. Subtenant hereby agrees that the obligations of "Tenant" in Section 5.3 of the Master Lease are incorporated herein by reference as specified above, including without limitation all such obligations to deliver Environmental Questionnaires (including the delivery of an Environmental Questionnaire concurrently with the execution and delivery of this Sublease), and all obligations to deliver notices, notifications, certifications, documents, environmental assessments, Environmental Reports, and Clean-up plans. In addition, Subtenant specifically acknowledges that Sublandlord shall have the obligation, and the right, to deliver all such Environmental Questionnaires and other documents and notices to Master Landlord in fulfillment of Sublandlord's obligations to Master Landlord under the Master Lease. Sublandlord agrees to use reasonable commercial efforts to minimize the creation of duplicative or inconsistent obligations to Master Landlord and Sublandlord under Sections 5.3.1.3(iii) and (iv), 5.3.2 and 5.3.4 of the Master Lease, but nothing herein shall be construed as any waiver by Sublandlord or its rights and remedies pursuant to said Sections of the Master Lease, as incorporated herein. In Section 5.3.1.4.3, as incorporated by reference herein, the phrase "that exist in, on or about the Project as of the date hereof" shall be deleted and the following phrase shall be inserted in its place: "that exist in the Premises as of the Initial Premises Commencement Date or the Expansion Premises Commencement Date, as the case may be, and that are caused by Sublandlord and not the obligation of Master Landlord under Section 5.1.4.1.3 of the Master Lease or a third party."

9.6 **Entry By Sublandlord**. Sublandlord shall have the right to enter the Premises as set forth in Article 27 of the Master Lease as incorporated by reference herein, and

shall also have the right to use the Common Areas, for purposes of performing its obligations under the Master Lease or this Sublease.

10. Additional Provisions.

10.1 Notices. In the event that Sublandlord or Subtenant shall receive any notice from Master Landlord for any reason pertaining to the Premises, then, such party shall immediately send a copy of such notice to the other party.

The provisions of the Master Lease regarding the giving of notices are hereby amended to delete the notice addresses for "Tenant" and "Landlord" and to insert the following:

Notices to Sublandlord: Five Prime Therapeutics, Inc.
111 Oyster Point Boulevard
South San Francisco, CA 94080
Attention: General Counsel

With a copy (which shall not constitute notice) to:

Lubin Olson Niewiadomski LLP
The Transamerica Pyramid
600 Montgomery Street, 14th Floor
Attention: Kenneth Whiting

Notices to Subtenant: Sutro Biopharma, Inc.

(Prior to Occupancy)
310 Utah Avenue, Suite 150
South San Francisco, CA 94080
Attention: Legal Counsel, David Pauling
(After Occupancy)
At the Premises
Attention: Legal Counsel, David Pauling

Assignment, Subletting and Encumbrance. Subtenant shall not voluntarily or involuntarily, by operation of law or otherwise, assign, sublet, mortgage or otherwise encumber all or any portion of its interest in this Sublease or in the Premises without obtaining the prior written consent of Sublandlord and Master Landlord with respect thereto, to the extent such consent is required under the terms and conditions of the Master Lease, as incorporated herein. If Master Landlord's consent is obtained, Sublandlord shall not unreasonably withhold its consent to any proposed sublease; provided, however, that Sublandlord may require as a condition of granting any such consent that (a) Subtenant provides to Sublandlord reasonably sufficient evidence of such sublessee's financial capability, (b) Subtenant reaffirms, in form satisfactory to Sublandlord, its continuing liability under the Sublease. Any assignment,

subletting, mortgage or other encumbrance attempted by Subtenant to which Sublandlord and/or Master Landlord has not consented in writing pursuant to the provisions hereof (where such consent was required) shall be null and void and of no effect. Notwithstanding anything to the contrary in this Sublease, Sublandlord shall have no option to recapture any Contemplated Transfer Space of Subtenant, as set forth in Section 14.4 of the Master Lease.

10.2 **Alterations and Improvements By Subtenant**. Subtenant shall not make any to the Premises without first (a) obtaining the written approval of such Alterations from each of Master Landlord and Sublandlord to the extent approval is required under the Master Lease and (b) otherwise complying with all provisions of the Master Lease, as incorporated herein, applicable to such Alterations; provided, however, approval by Sublandlord shall not be required if Master Landlord provides its approval. All such Alterations shall be constructed only after necessary permits, licenses and approvals have been obtained from appropriate governmental agencies and all improvements shall be constructed as to conform to all relevant codes, regulations, and ordinances. All such Alterations shall be made at Subtenant's sole cost and shall be diligently prosecuted to completion. Upon the expiration of this Sublease, Subtenant shall comply with Article 15 of the Master Lease, as incorporated herein, except to the extent that Master Landlord waives such requirement in writing. Subtenant shall permit no mechanics' or other liens to be recorded against the Premises related to work performed by or for Subtenant or anyone claiming by, under or through Subtenant. Should such a lien be made or filed against the Premises or real property on which the Premises are situated, Subtenant at its sole cost, shall bond against or discharge said lien within thirty (30) days after Sublandlord's or Master Landlord's request to do so. Sublandlord acknowledges that Subtenant plans to install its own security system for the Premises and make the alterations described in **Exhibit E**, provided Master Landlord consents to the same and does not require that they be restored. Sublandlord's contingent waiver of its approval right to Subtenant's Alterations shall not affect or diminish any of Subtenant's other obligations to Sublandlord under Section 8 of the Master Lease as incorporated herein, and Subtenant shall provide to Sublandlord all notices, lien waivers, and "as built" drawings and other items required to be delivered to Sublandlord pursuant to that Section. In addition, to the extent Subtenant is delayed in completing its initial alterations to the Premises due to (i) delays by Sublandlord, but only if the delay continues for two (2) business days after Subtenant's delivery of a second request for approval in compliance with the notice provisions of this Sublease, which second request must be in writing or sent by email to Sublandlord's email address provided under Section 10.1 above or (ii) mandatory construction work stoppages imposed by governmental entities in response to the COVID-19 pandemic (by statute, orders or other restrictions), Subtenant shall be entitled to abate one (1) day of rent next coming due with respect to the applicable phase of the Premises for each day of such delay.

10.3 **Holding Over**. Any holdover by Subtenant shall be governed by Article 16 of the Master Lease, as incorporated herein by reference. In addition, Sublandlord expressly reserves the right to require Subtenant to surrender possession of the Premises upon the expiration of the Term or upon the earlier termination hereof and the right to assert any remedy at law or in equity to evict Subtenant and/or collect damages in connection with any such holding over, and Subtenant shall indemnify, defend and hold Sublandlord harmless from and against any and all claims, demands, actions, losses, damages, obligations, costs and expenses, including, without limitation, attorneys' fees incurred or suffered by Sublandlord by reason of Subtenant's failure to surrender the Premises on the expiration or earlier termination of this Sublease in accordance with

the provisions of this Sublease, as set forth in the final sentence of such Article 16 of the Master Lease; provided, however, the holdover rent paid by Subtenant hereunder shall be credited against all such claims, demands, actions, losses, damages, obligations, costs and expenses.

10.4 **Waiver**. The waiver of Sublandlord or Subtenant of any agreement, condition or provision contained herein or any provision incorporated herein by reference shall not be deemed to be a waiver of any subsequent breach of the same or any other agreement, condition or provision, nor shall any custom or practice which may evolve between the parties in the administration of the terms hereof be construed to waive or to lessen the right of Sublandlord or Subtenant to insist upon the performance by the other in strict accordance with said terms. The subsequent acceptance of Rent hereunder by Sublandlord shall not be deemed to be a waiver of any preceding breach by Subtenant of any agreement or condition of this Sublease or the same incorporated herein by reference, other than the failure of Subtenant to pay the particular Rent so accepted, regardless of Sublandlord's knowledge of such preceding breach at the time of acceptance of such Rent.

10.5 **Complete Agreement**. There are no oral agreements between Sublandlord and Subtenant affecting this Sublease, and this Sublease supersedes and cancels any and all previous negotiations, letters of intent, brochures, agreements and understandings, if any, between Sublandlord and Subtenant or displayed by Sublandlord, its agents or real estate brokers to Subtenant with respect to the subject matter of this Sublease, the Premises or the Building. There are no representations between Sublandlord and Subtenant other than those contained in or incorporated by reference into this Sublease.

10.6 **Insurance**. Subtenant shall comply with the insurance provisions applicable to Tenant under the Master Lease, as incorporated herein. Such insurance shall insure the performance by Subtenant of its applicable obligations hereunder and the liability insurance shall name Master Landlord and Sublandlord as additional insureds. All such insurance shall include an endorsement requiring thirty (30) days written notice from the insurance company to Master Landlord and Sublandlord before cancellation or change in coverage, insureds or amount of policy. Subtenant shall provide both Master Landlord and Sublandlord with certificates of insurance evidencing such coverage prior to the earlier of entry into the Premises or the commencement of this Sublease. The waiver of subrogation provision contained in Section 10.5 of the Master Lease shall be deemed to be a three-party agreement binding among and inuring to the benefit of Sublandlord, Subtenant and Master Landlord (by reason of its consent hereto).

11. **Indemnification; Exculpation**

11.1 **Non-Liability Of Sublandlord**. Sublandlord shall not be liable to Subtenant, and Subtenant hereby waives and releases all claims against Sublandlord and its partners, officers, directors, employees, trustees, successors, assigns, agents, servants, affiliates, representatives, and contractors (collectively, herein "**Sublandlord Affiliates**") for injury or damage to any person or property occurring or incurred in connection with, or in any way relating to, the Premises. Without limiting the foregoing, neither Sublandlord nor any of the Sublandlord Affiliates shall be liable for and there shall be no abatement of Rent for (i) any damage to Subtenant's property stored with or entrusted to Sublandlord or Sublandlord Affiliates, (ii) loss of or damage to any property by theft or any other wrongful or illegal act, or (iii) any injury or damage

to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the Premises or from the pipes, appliances, appurtenances or plumbing works therein or from the roof, street or sub-surface or from any other place or resulting from dampness or any other cause whatsoever or from the acts or omissions of other sublessees, occupants or other visitors to the Premises or from any other cause whatsoever, or (iv) any latent or other defect in the Premises. Notwithstanding any provision of this Section 11.1 to the contrary, the waiver of liability contained in this Section 11.1 shall not apply to damage resulting from the negligence or willful misconduct of Sublandlord or its agents, contractors or invitees or the breach by Sublandlord of this Sublease or the Master Lease through no fault of Subtenant; provided, further, however, in no case shall Sublandlord ever be liable to Subtenant for (and Subtenant hereby waives any right to recover from Sublandlord for) any lost profits, business interruption or any form of consequential damage and in no case shall Subtenant ever be liable to Sublandlord for (and Sublandlord hereby waives any right to recover from Subtenant for) any lost profits, business interruption or any form of consequential damage.

11.2 **Indemnification Of Sublandlord; Indemnification Of Master Landlord**. Subject to the terms of Section 10.5 of the Master Lease, as incorporated herein, Subtenant shall indemnify, defend, protect and hold Sublandlord and its officers, agents, and employees (collectively, "**Sublandlord's Agents**") and Master Landlord and it officers, agents and employees, harmless from and against any and all claims, suits, judgments, losses, costs, obligations, damages, expenses, interest and liabilities, including, without limitation, actual attorneys' fees and costs, incurred or asserted in connection with (i) injury or damage to any person or property whatsoever arising out of or in connection with this Sublease, the Premises or Subtenant's activities in or about the Premises to the extent such injury or damage has been caused in whole or in part by the act, negligence, fault or omission of Subtenant, its agents, servants, contractors, employees, representatives, licensees or invitees (provided, however that the indemnification provided in this Section 11.2(i) shall not apply to the extent the injury or damage results from the negligence or willful misconduct of Sublandlord or Sublandlord's Agents or Master Landlord or Master Landlord's Agents or Sublandlord's or Master Landlord's violation of this Sublease or the Master Lease, of (ii) any breach or default by Subtenant of its obligations under this Sublease. The provisions of this Section 11.2 shall survive the expiration or earlier termination of this Sublease. Subject to the terms of Section 10.5 of the Master Lease, as incorporated herein, Sublandlord shall indemnify Subtenant as provided in the penultimate sentence of Section 10.1 of the Master Lease, as incorporated herein, except such indemnity shall also include any claims, suits, judgments, losses, costs, obligations, damages, expenses, interest and liabilities arising from Sublandlord's use of the Shared Areas, except to the extent due to the negligence or willful misconduct of Subtenant or Subtenant's Agents or Subtenant's violation of this Sublease.

12. **FF&E.** Effective upon the Initial Premises Commencement Date, Sublandlord shall be deemed to have sold, and Subtenant shall be deemed to have purchased, for the consideration of One Dollar ($1.00), all of Sublandlord's right, title and interest in the furniture, fixtures and equipment listed on **Exhibit B-1** hereto (the "**Initial Premises FF&E**"). Effective upon the Expansion Premises Commencement Date, Sublandlord shall be deemed to have sold, and Subtenant shall be deemed to have purchased, for the consideration of One Dollar ($1.00), all of Sublandlord's right, title and interest in the furniture, fixtures and equipment listed on **Exhibit B-2** hereto (the "**Expansion Premises FF&E**" and, together with the Initial Premises FF&E, the

"**FF&E"**). Subtenant shall accept the FF&E in its then "AS-IS" condition and state of repair, subject to any and all defects therein, latent or otherwise; provided, however, Sublandlord shall, prior to the applicable Commencement Date, decommission any FF&E that contains Hazardous Materials and Sublandlord shall be responsible for any sales tax with respect to the transfer of the FF&E. Subject to the foregoing, Subtenant waives any claim or action against Sublandlord in respect of the condition of the FF&E and neither Sublandlord nor any of Sublandlord's agents has made or makes any warranty or representation, express or implied, with respect to the condition of the FF&E, including without limitation any warranty of fitness for any particular purpose or as to any other matter whatsoever respecting the quality or condition of the FF&E. During the Term, the provisions of the Master Lease and this Sublease applicable to the personal property of Subtenant shall be applicable to the FF&E, including without limitation Subtenant's obligation to insure the FF&E. Subtenant, at its sole cost and expense, shall remove the FF&E from the Building upon the expiration or earlier termination of this Sublease. Sublandlord and Subtenant agree that no portion of the Base Rent or Additional Rent payable under this Sublease is attributable to the FF&E.

13. Miscellaneous.

13.1 Counterparts. This Sublease may be executed in one or more counterparts by the parties hereto. All counterparts shall be construed together and shall constitute one agreement. A facsimile counterpart signature or an electronic counterpart signature delivered to each party shall be deemed an original for the purpose of execution of this Sublease.

13.2 Sole Agreement. This Sublease contains all of the understandings of the parties and all representations made by either party to the other are merged herein.

13.3 Modification. This Sublease may not be modified in any respect except by a document in writing executed by both parties hereto or their respective successors.

13.4 Attorneys' Fees. If either party hereto brings an action or other proceeding against the other to enforce, protect, or establish any right or remedy created under or arising out of this Sublease, the prevailing party shall be entitled to recover from the other party, all costs, fees and expenses, including, without limitation, attorneys' fees, expenses, and disbursements incurred or sustained by such prevailing party in connection with such action or proceeding, and the prevailing party's rights to recover its costs, fees and expenses, and any award thereof, shall be separate from, shall survive, and shall not be merged with any judgment.

13.5 Binding Effect. This Sublease shall be binding on and inure to the benefit of the parties and their respective heirs, successors and assigns.

13.6 Time Is Of Essence. Time is of essence in respect of each and every term, covenant and condition of this Sublease.

13.7 Governing Law. This Sublease, and all claims or causes of action (whether in contract, tort or statute) that may be based upon, arise out of or relate to this Sublease, or the negotiation, execution or performance of this Sublease (including any claim or cause of action based upon, arising out of or related to any representation or warranty made in or in connection with this Sublease or as an inducement to enter into this Sublease) shall be governed by, and

enforced in accordance with, the internal laws of the State of California (without giving effect to any choice or conflict of law provision or rule, whether of the State of California or any other jurisdiction, that would cause the application of laws of any jurisdiction other than those of the State of California).

13.8 **Representations And Warranties**. Subtenant hereby represents and warrants to Sublandlord that (i) each person signing this Sublease on behalf of Subtenant is duly authorized to execute and deliver this Sublease on behalf of Subtenant, (ii) the execution, delivery and performance of this Sublease has been duly and validly authorized in accordance with the articles of incorporation, bylaws and other organizational documents of Subtenant, and (iii) Subtenant is duly organized and in good standing under the laws of the State of Delaware. Sublandlord hereby represents and warrants to Subtenant that (i) each person signing this Sublease on behalf of Sublandlord is duly authorized to execute and deliver this Sublease on behalf of Sublandlord, (ii) the execution, delivery and performance of this Sublease has been duly and validly authorized in accordance with the articles of incorporation, bylaws and other organizational documents of Sublandlord, and (iii) Sublandlord is duly organized and in good standing under the laws of the State of Delaware. In addition, Sublandlord represents and warrants that (a) the Master Lease is in full force and effect, and there exists under the Master Lease no default by Sublandlord or, to Sublandlord's actual knowledge, Master Landlord, nor has there occurred any event which, with the giving of notice or passage of time or both, could constitute such a default by Sublandlord or, to Sublandlord's actual knowledge, Master Landlord and (b) the copy of the Master Lease attached hereto as **Exhibit A** is a true, correct and complete copy of the Master Lease.

13.9 **Securities Law Filings and Disclosures.** Sublandlord and Subtenant hereby acknowledge that: (a) each of such parties may file a Current Report on Form 8-K (the "**Current Reports**") with the Securities and Exchange Commission (the "**SEC**") after the execution and delivery of this Sublease; (b) the Current Reports may include a description of the terms and conditions of this Sublease; (c) a copy of this Sublease may be attached as an exhibit to the respective Current Report or a subsequently filed Quarterly Report on Form 10-Q or Annual Report on Form 10-K with the SEC; and (d) neither party will seek confidential treatment of any of the terms and conditions of this Sublease, notwithstanding any provision of this Sublease to the contrary. Each of Sublandlord and Subtenant hereby consents to the other party's filing of its respective Current Report and the filing of this Sublease as an exhibit to any SEC filing requiring such filing and waives any obligation of the other party to seek confidential treatment of any of the terms and conditions of this Sublease in connection with any such filing.

13.10 **Condition Precedent.** Notwithstanding anything to the contrary set forth in this Sublease, this Sublease is conditioned upon, and shall not take effect until, receipt of the written consent of the Master Landlord hereto in form reasonably acceptable to Sublandlord and Subtenant, which must include, unless waived by Subtenant, Master Landlord's (a) approval of Subtenant's signage rights hereunder and installation of a security system and the alterations described in **Exhibit E**, (b) agreement that such alterations and any existing alterations in the Premises as of the date of this Sublease do not need to be restored, (c) agreement that Master Landlord's consent shall not be required for Transfers to Subtenant's Permitted Transferees, as described in Section 14.8 of the Master Lease, as incorporated herein, (d) agreement that the release and waiver of subrogation in Section 10.5 of the Master Lease shall apply as between Master Landlord and Subtenant and (e) consent to Subtenant's use of the generator as described in

Section 1 and Hazardous Materials as described in **Exhibit D**. Subtenant hereby agrees for the benefit of Sublandlord and Master Landlord (as an express intended third party beneficiary) that other than as expressly and specifically agreed to in writing by Master Landlord, no act, consent, approval or omission of Master Landlord pursuant to this Sublease shall (i) constitute any form of recognition of Subtenant as the direct tenant of Master Landlord, (ii) create any form of contractual duty or obligation on the part of Master Landlord in favor of Subtenant or (iii) waive, affect or prejudice in any way Master Landlord's right to treat this Sublease and Subtenant's rights to the Premises as being terminated upon any termination of the Master Lease. If Master Landlord's consent in a form reasonably acceptable to Sublandlord and Subtenant is not obtained within thirty (30) days after execution of this Sublease by Subtenant, then either Sublandlord or Subtenant may terminate this Sublease by giving the other written notice thereof prior to receipt of such consent and Sublandlord shall return any deliveries made by Subtenant.

13.11 **Cooperation**. Each party shall reasonably cooperate with the other party with respect to seeking any necessary approvals from Master Landlord, including without limitation approval of this Sublease.

13.12 **Sublandlord Obligations**. Sublandlord shall fully perform all of its obligations under the Master Lease to the extent Subtenant has not expressly agreed to perform such obligations under this Sublease. In the event, however, that Sublandlord defaults in the performance or observance of any of Sublandlord's remaining obligations under the Master Lease or fails to perform Sublandlord's stated obligations under this Sublease, then Subtenant may give Sublandlord notice specifying in what manner Sublandlord has defaulted, and if such default shall not be cured by Sublandlord within thirty (30) days thereafter (except that if such default cannot be cured within said thirty (30) day period, this period shall be extended for an additional reasonable time, provided that Sublandlord commences to cure such default within such thirty (30) day period and proceeds diligently thereafter to effect such cure as quickly as possible), then Subtenant shall be entitled to cure such default and promptly collect from Sublandlord, Subtenant's reasonable expenses in so doing (including without limitation reasonable attorneys' fees and court costs). Subtenant shall not be required, however, to wait the entire cure period described herein if earlier action is required to comply with the Master Lease or with any applicable governmental law, regulation or order. Sublandlord shall not exercise any extension options in, or otherwise extend the term of, the Master Lease.

13.13 **Data Room**. Notwithstanding anything to the contrary in this Sublease, commencing on the date of this Sublease and ending on the day before the Delivery Date, Sublandlord shall have the right to access the data room located in the Initial Premises and depicted on **Exhibit C** hereto (the "**Data Room**") on a "24 hours per day/7 days per week/365(6) days per year" basis, and to use the Data Room in common with Subtenant. Neither party shall move or otherwise interfere with the equipment of the other party that may be currently or hereafter located in the Data Room. Sublandlord shall provide at least one (1) hour's prior notice to Subtenant, which notice (notwithstanding anything to the contrary in Section 10.1 hereof) may be delivered by email or telephone to Steve Michel, Subtenant's Executive Director of Operations (phone number (650) 801- 6430, email smichel@sutrobio.com), in order to enter the Data Room during normal operating hours (except in the case of an emergency, in which event no notice shall be required).

13.14 **Lab Space**. Notwithstanding anything to the contrary in this Sublease, commencing on the date of this Sublease and ending on December 31, 2020, Sublandlord shall have the right to access the lab space located in the Initial Premises and depicted on **Exhibit C** (hereto) (the "**Lab Space**") on a "24 hours per day/7 days per week/365(6) days per year" basis. During such period, Sublandlord shall have the exclusive use of the Lab Space, and Subtenant shall not interfere with Sublandlord's use of the Lab Space. If Subtenant requires access to the Lab Space for planning purposes, Subtenant shall provide at least one (1) business day's prior notice to Sublandlord, which notice (notwithstanding anything to the contrary in Section 10.1 hereof) may be delivered by email or telephone to Nallakkan Arvindan, Sublandlord's Senior Vice President, Strategic Technical Operations (phone number (415) 365-5715, email Nallakkan.Arvindan@fiveprime.com), in order to enter the Lab Space during normal operating hours (except in the case of an emergency, in which event no notice shall be required).

IN WITNESS WHEREOF, the parties hereto have hereunto set their hand on the date first above written.

SUBLANDLORD:

Five Prime Therapeutics, Inc.,
a Delaware corporation

By: /s/ Thomas Civik
Name: Thomas Civik
Its: President and Chief Executive Officer

SUBTENANT:

Sutro Biopharma, Inc.,
a Delaware corporation

By: /s/ William J. Newell
Name: William J. Newell
Its: Chief Executive Officer

LEASE

THE COVE AT OYSTER POINT

HCP OYSTER POINT III LLC,

a Delaware limited liability company,

as Landlord,

and

FIVE PRIME THERAPEUTICS, INC.

a Delaware corporation,

as Tenant.

EXHIBITS

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THE COVE AT OYSTER POINT

LEASE

This Lease (the "**Lease**"), dated as of the Execution Date set forth in Section 1 of the Summary of Basic Lease Information (the "**Summary**"), below, is made by and between HCP OYSTER POINT III LLC, a Delaware limited liability company ("**Landlord**"), and FIVE PRIME THERAPEUTICS, INC., a Delaware corporation ("**Tenant**"). Landlord and Tenant may each be referred to in this Lease individually as a "**Party**" and collectively as the "**Parties**."

SUMMARY OF BASIC LEASE INFORMATION

TERMS OF LEASE	DESCRIPTION
1.Execution Date:	December 12, 2016
2.Premises (Article 1).	
2.1Building:	That certain four-story building containing approximately 115,466 rentable square feet of space ("**RSF**") located at: 111 Oyster Point Boulevard South San Francisco, California 94080
2.2Premises:	Approximately 115,466 RSF consisting of the entire Building, as further set forth in **Exhibit A** to the Lease.
3.Lease Term (Article 2).	
3.1Length of Term:	Ten (10) years, commencing on the Rent Commencement Date.
3.2Rent Commencement Date:	The later to occur of (i) January 1, 2018, and (ii) thirty (30) days after the Premises are "Ready for Occupancy", as defined in the Tenant Work Letter. The Parties anticipate that the Premises will be "Ready for Occupancy" on December 1, 2017.
3.3Lease Expiration Date:	The day prior to the tenth (10th) anniversary of the Rent Commencement Date.

4.Base Rent (Article 3):

Lease Year	Annualized Base Rent	Monthly Installment of Base Rent	Monthly Base Rent per RSF
1 (months 1 – 6)*	N/A	$282,891.70	$4.90
1 (months 7 – 12)	N/A	$565,783.40	$4.90

2	$7,024,951.44	$585,412.62	$5.07
3	$7,274,358.00	$606,196.50	$5.25
4	$7,523,764.56	$626,980.38	$5.43
5	$7,787,027.04	$648,918.92	$5.62
6	$8,064,145.44	$672,012.12	$5.82
7	$8,341,263.84	$695,105.32	$6.02
8	$8,632,238.16	$719,353.18	$6.23
9	$8,937,068.40	$744,755.70	$6.45
10	$9,255,754.56	$771,312.88	$6.68

*Note that for the first six (6) months of the first Lease Year of the Lease Term, Tenant's Base Rent obligation has been calculated as if the Premises contained only 57,773 rentable square feet. Such calculation shall not affect Tenant's right to use the entire Premises, or Tenant's obligations under this Lease with respect to the entire Premises, including Tenant's obligation to pay Tenant's Share of Direct Expenses with respect to the Premises which shall be as provided in Section 6 of this Summary, all in accordance with the terms and conditions of this Lease.

Address for Payment of Rent:

If by check, remittances should be mailed to:
HCP Life Sciences REIT
File 51142
Los Angeles, CA 90074-1142

If by ACH, remit to:
HCP Life Sciences REIT Bank of America
ABA: 121000358
Acct: 1235928034

If by Wire, remit to:
HCP Life Sciences REIT Bank of America
ABA: 026009593
Acct: 1235928034

If by overnight mail, remit to:
Bank of America Lockbox Services
Lockbox 51142
2706 Media Center Drive
Los Angeles, CA 90065-1733

5.Tenant Improvement Allowance (**Exhibit B**): $125.00 per RSF of the Premises (i.e., $14,433,250.00).

6.Tenant's Share (Article 4):	100%.
7.Permitted Use (Article 5):	The Premises shall be used only for general office, biotechnology and pharmaceutical research and development, engineering, lab scale manufacturing and laboratory and vivarium uses, including administrative offices and other lawful uses reasonably related to or incidental to such specified uses, all (i) consistent with first class life sciences and pharmaceutical 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.Letter of Credit (Article 21):	$1,542,625.76, subject to reduction as set forth in Article 21.
9.Parking (Article 28):	291 unreserved parking spaces, including 5 dedicated visitor parking spaces, subject to the terms of Article 28.
10.Address of Tenant (Section 29.18):	Before the Rent Commencement Date: Five Prime Therapeutics, Inc. Two Corporate Drive South San Francisco, CA 94080 Attention: Chief Financial Officer After the Rent Commencement Date: Five Prime Therapeutics, Inc. 111 Oyster Point Boulevard South San Francisco, California 94080 Attention: Chief Financial Officer
11.Address of Landlord (Section 29.18):	See Section 29.18.
12.Broker(s) (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, are further depicted on the Site Plan attached hereto as **Exhibit A**. The Parties 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 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. Except as specifically set forth in this Lease and in 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. 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 and the Tenant Work Letter. Landlord shall deliver the Premises to Tenant in good, vacant, broom clean condition, in compliance with all laws, with the roof water-tight and with the plumbing, electrical systems, fire sprinkler system, elevator system, lighting, air conditioning, heating, and all other building systems serving the Premises in good operating condition and repair, and with all required occupancy permits (or equivalent final permit signoffs) relating to the Base Building (and not any specific Tenant Improvements) on or before the Rent Commencement Date, or such earlier date as Landlord and Tenant mutually agree. Landlord will be responsible for causing the exterior of the Building, the existing Building entrances, and all exterior Common Areas (including required striping and handicapped spaces in the parking 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 the Tenant Improvements.

1.1.2 **The Building and The Project**. The Premises constitutes the entire building set forth in Section 2.1 of the Summary (the "**Building**"). The Building is part of an office/laboratory project currently known as "The Cove at Oyster Point." 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 six (6) other office/laboratory buildings located or to be located at The Cove at Oyster Point, and the land upon which such adjacent office/laboratory buildings are or will be 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, 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 (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 such closures, alterations, additions or changes shall not unreasonably interfere with Tenant's use of such Common Areas and provided, further, that in connection therewith Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's use of and access to the Premises and parking areas. Landlord has constructed an amenities center in the Project for use by the tenants of the Project, Landlord shall operate and maintain such amenities center (which amenities center shall include a café and a fitness facility) throughout the Lease Term. If despite such commercially reasonable efforts Landlord is unable for any reason

to maintain continuous operation of the amenities center during the Lease Term, in no event shall such failure be deemed a default of the Lease, nor shall such failure impact the validity of this Lease and Landlord shall not be subject to any liability for such failure, provided that in such event Landlord shall utilize commercially reasonable efforts to provide replacement food services to Tenant (e.g., an on-site café in a different location or the routine scheduling of food trucks to the Project), or a replacement fitness facility for use by Tenant's employees in reasonable proximity to the Project.

1.1.4 **Delivery of Premises**. Landlord shall use commercially reasonable efforts and all reasonable diligence to complete construction of the Premises prior to January 1, 2018. In the event Landlord fails to cause the Premises to be "Ready for Occupancy" on or before February 1, 2018 (the "**Outside Date**"), then Landlord shall provide Tenant a credit against Base Rent first due under this Lease in the amount of "Holdover Premium", as defined below, required to be paid by Tenant during the period from the Outside Date until the date that is the earlier of (i) the date that is thirty (30) days after the Premises are Ready for Occupancy, and (ii) the date that Tenant actually vacates and surrenders its existing premises (the "**Holdover Period**"). The "**Holdover Premium**" shall be the amount of rent required to be paid by Tenant to its current landlord during the Holdover Period which is at a rate that is in excess of the rate payable immediately prior to the end of Tenant's existing lease (i.e., the rate payable during December, 2017). In no event shall the Holdover Premium required to be paid by Landlord exceed $144,192.10 per month of the Holdover Period. The Outside Date shall be extended for any delays in Landlord's completion of the Tenant Improvements in the Premises caused by "Tenant Delay", as set forth in Section 1(j) of the Tenant Work Letter, or "Unavoidable Delay", as set forth in Section 1(l) of the Tenant Work Letter.

1.2 **Rentable Square Feet of Premises**. Tenant hereby acknowledges and agrees that Landlord shall have the one-time right during the Lease Term to remeasure the rentable square footage of the Premises and/or Building in accordance with the terms of this Section 1.2. Any such remeasurement shall be determined in accordance with the standards set forth in ANSI Z65.1-2012 (Method B Industrial Standard), as promulgated by the Building Owners and Managers Association (the "**BOMA Standard**"), and subject to related guidelines applicable thereto. Landlord's space planner/architect shall certify any such remeasurement and shall provide reasonable documentation to Tenant for Tenant's review following such remeasurement. In the event that Landlord's space planner/architect determines that the rentable square footage of the Premises and/or Building are different from those set forth in this Lease, all amounts, percentages and figures appearing or referred to in this Lease based upon such amounts (including, without limitation, the amount of the Base Rent, Tenant Improvement Allowance, Additional Tenant Improvement Allowance, and Tenant's Share) shall be modified in accordance with such determination, provided that Landlord and Tenant hereby acknowledge and agree that the rentable square footage of the Premises shall not increase by more than one percent (1%) from the rentable square footage set forth in Section 2.2 of the Summary. If such determination is made, it will be confirmed in writing by Landlord to Tenant.

1.3 **Right of First Offer**.

1.3.1 **Right of First Offer**. Subject to the terms and conditions of this Section 1.3, Landlord hereby grants to Tenant an on-going right of first offer during the period commencing on the Rent Commencement Date and continuing for the first five (5) Lease Years of the initial Lease Term with respect to any space in the adjacent building of the Project located at 151 Oyster Point Boulevard or 171 Oyster Point Boulevard (the "**First Offer Space**"). Notwithstanding the foregoing, such first offer right of Tenant shall commence only following the expiration or earlier termination of the existing leases of the First Offer Space and any leases in the Project entered into prior to the Rent Commencement Date (collectively, the "**Existing Leases**") (including renewals of any such lease, irrespective of whether any such renewal is currently set forth in such lease or is subsequently granted or agreed upon, and regardless of whether such renewal is consummated pursuant to a lease amendment or a new lease). Such right of first offer shall commence with respect to any space in 171 Oyster Point Boulevard only after the first lease of such space (i.e., Landlord shall have the right to enter an initial lease of the currently vacant space in such building without being required to offer such space to Tenant under this Section 1.3). The right of first offer granted in this Section 1.3 shall be subordinate to all rights granted in any Existing Leases, which rights relate to the First Offer Space and are set forth in the Existing Leases upon execution thereof, or in any "Intervening Lease", below, including, without limitation, any renewal, expansion, first offer, first refusal, first negotiation and other rights, regardless of whether such rights are executed strictly in accordance with their respective terms or pursuant to a lease amendment or a new lease (the "**Superior Rights**"). Tenant acknowledges that Landlord may be currently in discussions to lease certain

portion of the First Offer Space, and, to the extent Landlord enters into any lease of the First Offer Space prior to the Rent Commencement Date under this Lease, the rights contained in such lease of the First Offer Space shall be Superior Rights. Further, such right of first offer shall be subject and subordinate to the terms of any renewal right contained in any lease of the First Offer Space entered into by Landlord with a third party after Tenant's failure to exercise its right of first offer as provided in this Section 1.3 (the "**Intervening Leases**"). All such tenants under Existing Leases or Intervening Leases, are collectively referred to as the "**Superior Right Holders**".

1.3.2 **Procedure for Lease**.

1.3.2.1 **Procedure for Offer**. Subject to the terms hereof, Landlord shall notify Tenant (the "**First Offer Notice**") prior to entering into any lease with a third party for the First Offer Space, which notice shall outline the base rent, allowance amounts if any, length of term, and other economic terms on which Landlord would be willing to lease the First Offer Space (as set forth in such proposal) to Tenant (the "**Fundamental Terms**"). Pursuant to such First Offer Notice, Landlord shall offer to lease to Tenant the applicable First Offer Space on the Fundamental Terms. In no event shall Landlord have the obligation to deliver a First Offer Notice (and Tenant shall have no right to exercise its right under this Section 1.3) to the extent that the "First Offer Commencement Date," as that term is defined in Section 1.3.2.4 below, is anticipated by Landlord to occur on or after the first (1st) day of the sixth (6th) Lease Year (the "**ROFO Expiration**").

1.3.2.2 **Procedure for Acceptance**. If Tenant wishes to exercise Tenant's right of first offer with respect to the First Offer Space described in the First Offer Notice, then within twenty (20) days after delivery of the First Offer Notice to Tenant, Tenant shall deliver notice to Landlord of Tenant's irrevocable exercise of its right of first offer with respect to all of the First Offer Space described in the First Offer Notice on the Fundamental Terms provided for therein. Tenant shall be required to lease all of the space offered in a particular First Offer Notice, and shall have no right to lease any lesser portion thereof. If Tenant does not so notify Landlord within such twenty (20) day period of Tenant's exercise of its first offer right, then Landlord shall be free to negotiate and enter into a lease for the First Offer Space to anyone whom it desires on terms that are not more than ninety percent (90%), on a net economic basis, of the Fundamental Terms initially provided (the "**Materially Better Terms**"). If (i) Landlord has not entered into any such lease within one hundred eighty (180) days after the date of delivery of the First Offer Notice, or (ii) Landlord intends to enter into a lease on Materially Better Terms, then, prior to entering into any lease of such First Offer Space, Landlord shall first again offer such space to Tenant in accordance with the terms of this Section 1.3.

1.3.2.3 **Construction In First Offer Space**. Unless the Fundamental Terms provided to Tenant for the First Offer Space otherwise specify, Tenant shall take the First Offer Space in its "as is" condition, and Landlord shall not be obligated to provide or pay for any improvement of the First Offer Space. For the avoidance of doubt, if the Fundamental Terms include a tenant improvement allowance or a turn-key build out, Tenant shall receive the same allowance or turn-key build out, as applicable.

1.3.2.4 **Lease of First Offer Space**. If Tenant timely exercises Tenant's right of first offer to lease First Offer Space as set forth herein, Landlord and Tenant shall cooperate in good faith to enter into an amendment to this Lease (the "**First Offer Space Amendment**") for such First Offer Space pursuant to this Section 1.3. Tenant's lease of such First Offer Space shall be upon the express terms set forth in the First Offer Notice, but otherwise upon the same general terms and conditions set forth in this Lease and this Section 1.3. The First Offer Space Lease shall not contain the rights set forth in Section 2.2, below. The term of Tenant's lease of the First Offer Space shall commence on the date set forth in the First Offer Notice (the "**First Offer Commencement Date**") (provided that such First Offer Commencement Date shall in no event be earlier than the date of Landlord's delivery of the applicable First Offer Space to Tenant), and shall expire on the applicable date set forth in the First Offer Notice (the "**First Offer Space Expiration Date**").

1.3.2.5 **Limitation of Exercise of First Offer Right**. The right to lease First Offer Space as provided in this Section 1.3 may not be exercised if, as of the date of the attempted exercise of the expansion option by Tenant, Tenant is in default under this Lease, beyond any applicable notice and cure period. The terms of this Section 1.3 shall be personal to the originally named Tenant hereunder (the "**Original Tenant**") or a Permitted Transferee, and may not be exercised by any assignee, subtenant, or other Transferee of Original Tenant's interest in

this Lease other than a Permitted Transferee. Tenant's right of first offer shall be continuous during the first five (5) years of the initial Lease Term. Tenant's rejection of any particular offer shall not relieve Landlord of its obligation to again offer the First Offer Space to Tenant any time the First Offer Space subsequently becomes available (provided that Tenant's rights under this Section 1.3 shall be subject and subordinate to the renewal rights of any tenant under a lease entered into by Landlord after Tenant has declined or failed to respond to a First Offer Notice).

1.4 **Right of Negotiation.** Landlord hereby grants to Tenant a right of negotiation during the period commencing on the Rent Commencement Date and continuing for the first five (5) Lease Years of the initial Lease Term with respect to any space becoming available on a multi-tenant basis (i.e., available for a lease of less than materially all of a particular building) with respect to the buildings located at 121, 151 or 171 Oyster Point Boulevard, or in the buildings to be constructed at 131, 161 or 181 Oyster Point Boulevard (collectively, the "**Negotiation Space**"). Notwithstanding the foregoing, such negotiation right of Tenant shall be subordinate to all rights of Superior Right Holders.

1.4.1 **Procedure for Notice.** Tenant, at Tenant's option, may notify Landlord not more than once in any calendar year, if Tenant is interested in leasing space in the Project. Thereafter, Landlord shall notify Tenant (a "**Negotiation Notice**") from time to time when the Negotiation Space or any portion thereof becomes available for lease to third parties (other than Superior Right Holders) on a multi-tenant basis. A Negotiation Notice shall describe such available space.

1.4.2 **Procedure for Negotiation.** If Tenant wishes to exercise its right of negotiation with respect to the space described in a Negotiation Notice, then within three (3) business days of delivery of such Negotiation Notice to Tenant, Tenant shall deliver notice to Landlord of Tenant's desire to discuss a lease of such space. If Tenant timely exercises its right of negotiation as set forth herein, Landlord and Tenant shall, within five (5) business days after Landlord's receipt of Tenant's notice, meet and discuss the lease of the space described in such Negotiation Notice from Landlord to Tenant (the "**Negotiation Meeting**"). If Landlord and Tenant do not reach agreement as to the material economic terms of the lease of such space within fifteen (15) business days after the Negotiation Meeting, then Landlord, in its sole and absolute discretion, shall have the right to terminate negotiations with Tenant and to lease the space described in the Negotiation Notice to anyone whom Landlord desires on any terms which Landlord desires. Notwithstanding anything to the contrary contained herein, Tenant must elect to exercise its right of negotiation, if at all, with respect to all of the space offered by Landlord to Tenant at any particular time, and Tenant may not elect to lease only a portion thereof. If Tenant does not exercise its right of negotiation with respect to any space described in a Negotiation Notice or if Tenant fails to respond to a Negotiation Notice within three (3) business days of delivery thereof, then Tenant's right of negotiation as set forth in this Section 1.3 shall terminate as to all of the space described in such Negotiation Notice.

1.4.3 **Termination of Right of Negotiation.** The rights contained in this Section 1.4 may only be exercised by Tenant if Tenant occupies the entire Premises. The right of negotiation granted herein shall terminate as to any space described in a Negotiation Notice upon the failure by Tenant to exercise its right of negotiation with respect to such space as offered by Landlord. Tenant shall not have the right to lease Negotiation Space, as provided in this Section 1.4, if, as of the date of the attempted exercise of any right of negotiation by Tenant, Tenant is in default under this Lease or Tenant has previously been in default under this Lease more than once.

2. LEASE TERM; OPTION TERM.

2.1 **Lease Term**. The terms and provisions of this Lease shall be effective as of the Execution Date. 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 "**Rent 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 ten (10) business days of receipt thereof. Tenant shall have the right to occupy the Premises (or certain portions of the Premises) to conduct its business prior to the Rent Commencement Date, provided that (A) Tenant shall give Landlord at least three (3) business days' prior notice of

any such occupancy of the Premises (or portion thereof), (B) a temporary certificate of occupancy or its equivalent shall have been issued by the appropriate governmental authorities for each such portion to be occupied, and (C) all of the terms and conditions of this Lease shall apply (including, without limitation Tenant's obligation to deliver a certificate of insurance to Landlord in accordance with the terms of Section 10.4 below), other than Tenant's obligation to pay "Base Rent," as that term is defined in Article 3 below, and "Tenant's Share" of the annual "Building Direct Expenses," as those terms are defined in Article 4, below, as though the Rent Commencement Date had occurred.

2.2 **Option Term**.

2.2.1 **Option Right**. Landlord hereby grants to the 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 assignee, sublessee or other "Transferee," as that term is defined in Section 14.1 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 that 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 this 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 (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. 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 that are comparable to the Building in terms of age (based upon the date of completion of construction or major renovation of to 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 following Landlord's receipt of Tenant's exercise notice. If Tenant, on or before the date which is ten (10) business days following Landlord's receipt of Tenant's exercise notice, fails to accept or object to

Landlord's determination of the Option Rent, Tenant's right to extend this Lease pursuant to this Section 2.2 shall be of no further force or effect. If Tenant, on or before the date that is ten (10) business days following the date upon which Tenant receives Landlord's determination of the Option Rent, 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) business 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) business days thereafter, in which event Tenant's right to extend this 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) business 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.

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, 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, 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, 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 within thirty (30) days thereafter.

3. BASE RENT. Tenant shall pay, without prior notice or demand, to Landlord at the address set forth in Section 4 of the Summary, or, at Landlord's option, at such other place as Landlord may from time to time designate in writing, by a check for currency that, 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, commencing on the Rent Commencement Date, without any setoff or deduction whatsoever. The Base Rent for the first full month of the Lease Term shall be paid promptly after Parties' full execution and delivery of this Lease. If any Rent payment date (including the Rent 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 that 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 that 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 "**Tenant's Share**" of the annual "**Direct Expenses**," as those terms are defined in Sections 4.2.6 and 4.2.2, 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 with respect to 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 utilities (to the extent not separately metered), the cost of operating, repairing and maintaining the utility, 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 reasonable cost

of contesting any governmental enactments that 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) subject to clause (xiii) below, 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 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 capital expenditures incurred in connection with the Project including in connection with the repair or replacement of all systems and equipment and components thereof of the Project) that are (A) 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) required to comply with present or anticipated conservation programs, (C) replacements or modifications of nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition, or (D) required under any governmental law or regulation which become effective after the Rent Commencement Date; provided, however, that any capital expenditure shall be amortized (including reasonable interest on the amortized cost) over the reasonable useful life of such capital item and the amount includible in Operating Expenses shall be limited to the monthly amortized cost thereof; 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 that do not constitute "Tax Expenses" as that term is defined in Section 4.2.5, and (xv) payments under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs by the Building, including 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 Rent 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 that 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 that 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 (other than as direct reimbursement for costs that, if incurred directly by Landlord, would properly be included in Operating Expenses);

(j) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment that if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project that 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 or its agents, employees or contractors in connection with this Lease;

(o) costs incurred to comply with laws relating to the removal or remediation of hazardous material (as defined under applicable law) from the Building or Project, and any costs of fines or penalties relating to the presence of hazardous material in, on, under or about the Building or Project, 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 Rent Commencement Date;

(q) capital costs occasioned by casualties or condemnation.

(r) legal fees, accountants' fees (other than normal bookkeeping expenses) and other expenses incurred in connection with disputes of tenants or other occupants of the Project or associated with

the enforcement of the terms of any leases with tenants or the defense of Landlord's title to or interest in the Project or any part thereof;

(s) costs incurred due to a violation by Landlord or any other tenant of the Project of the terms and conditions of a lease;

(t) costs incurred in connection with the construction of any additional buildings in the Project; and

(u) self-insurance retentions

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), that Landlord shall pay or accrue 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 any: (i) 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) 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) assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including 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 reasonable costs and expenses (including 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, transfer 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, (iv) assessments in excess of the amount that 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; (vi) tax increases resulting from the improvement of any of the Project for the sole use of other occupants; and (vii) any penalties or interest thereon due to Landlord's late or non-payment of any taxes.

4.2.5.4 At Tenant's request, and provided that it is then deemed advisable by Landlord in the exercise of Landlord's reasonable business judgment (i.e., Landlord has a reasonable expectation of success of such appeal), Landlord shall bring or cause to be brought an application or proceeding for reduction of the assessed valuation of the Building or Project, as applicable, in order to reduce Tax Expenses.

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, 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. Notwithstanding the foregoing, the parties agree that costs included in Direct Expenses that are related to the Project amenities center shall be allocated on a proportional basis to the entire currently planned Project, regardless of whether the entire planned Project has been or is completed.

4.4 **Calculation and Payment of Additional Rent**. Commencing on the Rent Commencement Date, Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, and as Additional Rent, Tenant's Share of Direct Expenses for each Expense Year during the Lease Term.

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, a statement (the "**Statement**") that shall reasonably itemize the Direct Expenses incurred or accrued for such preceding Expense Year, and that 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 pay to Landlord such amount within thirty (30) days, 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. Notwithstanding the immediately preceding sentence, Tenant shall not be responsible for Tenant's Share of any Direct Expenses attributable to any Expense Year that is first billed to Tenant more than two (2) calendar years after the earlier of the expiration of the applicable Expense Year or the Lease Expiration Date, provided that in any event Tenant shall be responsible for Tenant's Share of Direct Expenses levied by any governmental authority or by any public utility companies at any time following the Lease Expiration Date that is attributable to any Expense Year (provided that Landlord delivers Tenant a bill for such amounts within two (2) years following Landlord's receipt of the bill therefor).

4.4.2 **Statement of Estimated Direct Expenses**. In addition, Landlord shall give Tenant a yearly expense estimate statement (the "**Estimate Statement**") that 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**"). 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 that 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 at any time), 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 eighty (180) 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 eighty (180) 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 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 (except as set forth in the next succeeding sentence) 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 that 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 unlawful 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 approximate quantities listed on the Environmental Questionnaire (as the same may be updated from time to time as provided below) or any similar chemicals or materials used for substantially the same purposes in substitution thereof in compliance with applicable law, 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 (but no more than once each Lease Year), 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. Tenant shall notify Landlord prior to using any Hazardous Materials in the Premises not described on the initial Environmental Questionnaire, and such use shall be subject to all of the provisions of this Lease. 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, that 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 agreementsthat 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 (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 Rent 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 Term caused by Tenant or Tenant's Agents, in addition to notifying Landlord as specified above, Tenant, at its own sole cost and expense, shall (i) promptly and timely 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 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 third party claims, judgments, losses, damages, costs, expenses, penalties, enforcement actions, taxes, fines, remedial actions, liabilities (including 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 third party 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 or Project that Landlord has in its possession, or control. 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 (but no more than once every Lease Year, unless Landlord shall have reasonable grounds to believe that Tenant is not in compliance with its covenants under this Section 5.3), Tenant shall deliver to Landlord a narrative description explaining the nature and scope of Tenant's activities involving Hazardous Materials and certifying to Tenant's 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 thirty (30) 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 Execution Date; 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 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, promptly 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 thirty (30) 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, valid order of a court or judicial or administrative process, 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 third party (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, valid order of a court or judicial or administrative process, it shall, to the extent legally permitted, 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 **Landlord's Obligations**. Unless compelled to do so by applicable law, valid order of a court or judicial or administrative process, Landlord agrees that Landlord shall not disclose, discuss, disseminate or copy any information, data, findings, communications, conclusions or reports regarding the environmental condition of the Premises (including any information, data, findings, communications or conclusions included in any Environmental Questionnaire) to any third party (other than Landlord's consultants, attorneys, property managers, employees, shareholders and potential and actual investors, lenders, business and merger partners, that have a need to know such information), including any governmental authority, without the prior written consent of Tenant. In the event Landlord reasonably believes that disclosure is compelled by applicable law, valid order of a court or judicial or administrative process, it shall, to the extent legally permitted, provide Tenant ten (10) days' advance notice of disclosure of confidential information so that Tenant may attempt to obtain a protective order. Landlord 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.

5.3.7 **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, unless doing so would result in a breach of any contractual obligation of Tenant to a third party.

5.3.8 **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.

5.3.9 **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 making heating, ventilation and air-conditioning, electricity, and water available to the Premises. It is the Parties' expectation that all utilities to the Premises will be separately metered at the Premises and shall be paid directly by Tenant. Landlord shall not provide janitorial, telephone services or interior security 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.

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 provides and maintains and keeps in continuous service utility connections to the Project, including electricity, gas, water and sewage connections, Landlord shall have no obligation to provide any services or utilities to the Building, including heating, ventilation and air-conditioning, electricity, water, telephone, janitorial and interior Building security services, except as set forth in this Section 6.1.

6.2 **Tenant Payment of Utilities Costs**. It is the Parties' expectation that all utilities (including electricity, gas, sewer and water) will be separately metered or sub-metered to the Premises and will be paid directly by Tenant. After the Rent Commencement Date such utilities shall either be contracted for and paid directly by Tenant to the applicable utility provider. If, after the Rent Commencement Date, any utilities 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. In connection with the foregoing, Landlord shall install separate meters on the Building Systems as a part of Landlord's construction of the Base Building, and Tenant shall install separate meters on the systems installed in the Premises as part of the Tenant Improvements pursuant to the Work Letter.

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 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, except as set forth below. Notwithstanding the foregoing, Landlord shall 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 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 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 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 pursuant to the terms of 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 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 6.3 shall survive the expiration or earlier termination of this Lease.

7. REPAIRS.

7.1 **Tenant Repair Obligations**. Tenant shall, throughout the Term, at its sole cost and expense, maintain, repair, replace and improve as required, the Premises and Building and every part thereof 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 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 the following: (1) glass, windows, window frames, window casements (including the repairing, resealing, cleaning and replacing of both interior and exterior windows) and skylights; (2) interior and exterior doors, door frames and door closers; (3) interior lighting (including light bulbs and ballasts); (4) the plumbing, sewer, drainage, electrical, fire protection, elevator, escalator, life safety and security systems and equipment, existing heating, ventilation and air-conditioning systems, and all other mechanical, electrical and communications systems and equipment (collectively, the "**Building Systems**"), including (i) any specialty or supplemental Building Systems installed by or for Tenant and (ii) 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, upon or about the Premises; (5) all communications systems serving the Premises; (6) all of Tenant's security systems in or about or serving the Premises; (7) Tenant's signage; (8) interior demising walls and partitions (including painting and wall coverings), equipment, floors, and any roll-up doors, ramps and dock equipment; and (9) the non-structural portions of the roof of the Building, including the roof membrane and coverings. 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, and, to the extent that Landlord notifies Tenant in writing of its intention to no longer arrange for such monitoring, cause the fire alarm systems serving the Premises to be monitored by a monitoring or protective services firm approved by Landlord in writing.

7.2 **Service Contracts**. All Building Systems, including HVAC, elevators, main electrical, plumbing and fire/life-safety systems, shall be maintained, repaired and replaced by Tenant (i) in a commercially reasonable first-class condition, (ii) in accordance with any applicable manufacturer specifications relating to any particular component of such Building Systems, (iii) in accordance with applicable Laws. Tenant shall contract with a qualified, experienced professional third party service companies (a "**Service Contract**"). Tenant shall regularly, in accordance with commercially reasonable standards, generate and maintain preventive maintenance records relating to each Building's mechanical and main electrical systems, including life safety, elevators and the central plant ("Preventative Maintenance Records"). In addition, upon Landlord's request, Tenant shall deliver a copy of all current Service Contracts to Landlord and/or a copy of the Preventative Maintenance Records.

7.3 **Landlord's Right to Perform Tenant's Repair Obligations**. Tenant shall notify Landlord in writing at least thirty (30) days prior to performing any material Tenant's Repair Obligations, including any Tenant's Repair Obligation that affects the Building Systems or are reasonably anticipated to cost more than $100,000.00. Upon receipt of such notice from Tenant, Landlord shall have the right to either (i) perform such material Tenant's Repair Obligation by delivering notice of such election to Tenant within thirty (30) days following receipt of Tenant's notice, and Tenant shall pay Landlord the reasonable and documented cost thereof (including Landlord's reasonable supervision fee) within thirty (30) days after receipt of an invoice therefor, or (ii) require Tenant to perform such Tenant's Repair Obligation at Tenant's sole cost and expense. If Tenant fails to perform any Tenant's Repair Obligation within a reasonable time period, as reasonably determined by Landlord, then Landlord may, but need not, following delivery of notice to Tenant of such election, make such Tenant Repair Obligation, and Tenant shall pay Landlord the cost thereof, (including Landlord's reasonable supervision fee) within thirty (30) days after receipt of an invoice therefor.

7.4 **Landlord Repair Obligations**. Landlord shall be responsible for repairs to the exterior walls, foundation and roof of the Building, the structural portions of the floors of the Building, and for the maintenance of the load bearing and exterior walls of the Building, including any painting, sealing, patching and waterproofing of such walls (the "**Landlord Repair Obligation**"); provided, however, that if such repairs or maintenance are due to the negligence or willful misconduct of Tenant, Landlord shall nevertheless make such repairs or perform such maintenance at Tenant's expense, or, if covered by Landlord's insurance, Tenant shall only be obligated to pay any deductible in connection therewith.

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, conditioned or delayed by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration that 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 $100,000.00 for a particular job of work. The construction of the Tenant Improvements to the Premises shall be governed by the terms of the Tenant Work Letter and not the terms of this Article 8.

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; provided, however, that Landlord may not require Tenant to remove at the expiration or any early termination of this Lease any Tenant Improvements shown in the Approved Schematic Plans or any Alternations consistent with the improvements shown in the Approved Schematic Plan, or any Alterations which are otherwise consistent with typical tenant improvements in the biotechnology or pharmaceutical industries. 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, 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 that 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, in the event that Tenant makes any Alterations, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant or Tenant's contractor carries " **Builder's All Risk**" insurance (to the extent that the cost of such work shall exceed $50,000) 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 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. 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 that 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, 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; provided, however, that Landlord may not require Tenant to remove any Tenant Improvements shown in the Approved Schematic Plans or any Alternations consistent with the improvements shown in the Approved Schematic Plan, or any Alterations which are otherwise consistent with typical tenant improvements in the biotechnology or pharmaceutical industries. 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, except to the extent the same are paid for by the Tenant Improvement Allowance, 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 third party claims, liabilities, judgments or costs (including 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 and release 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 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, its agents and employees, from, all losses, damages, liabilities, demands, claims, actions, attorneys' fees, costs and expenses arising from the 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 on a full replacement cost basis, with commercially reasonable deductibles. 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. Landlord shall also keep in full force and effect a policy of Commercial General Liability Insurance protecting Landlord against claims for bodily injury and property damage arising out of Landlord's ownership, use, occupancy or maintenance of the Building and the Common Areas. Such insurance shall be on an occurrence basis and shall include limits of liability not less than those required of Tenant under Section 10.3.

10.3 **Tenant's Insurance**. Tenant shall maintain the following coverages in the following amounts during the Lease Term (except Tenant shall carry the insurance described in Section 10.3.1 during any period in which it enters the Premises).

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 including a contractual coverage for limits of liability (which limits may be met together with umbrella liability insurance) of not less than:

Bodily Injury and Property Damage Liability	$4,000,000 each occurrence $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 an "**all risks**" 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 that 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 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, in which case note less than five (5) days' notice shall be provided). Tenant shall deliver said policy or policies or certificates thereof to Landlord on or before the Rent Commencement Date and at least ten (10) days before the expiration dates thereof. In the event Tenant shall fail to procure such insurance, or to deliver such policies or certificate, 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 the negligence of either Party. 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.

10.7 **Construction Period**: The term "Construction Period" shall mean the period from the Effective Date to the date that Landlord completes construction of the Landlord's Work, and Common Areas, regardless of the occurrence of any Tenant Delay and without regard to the effect of any provision of this Lease pursuant to which the Premises are deemed to be Ready for Occupancy in advance of its actual occurrence. Notwithstanding any provision of this Lease to the contrary, during the Construction Period only, the following provisions shall be applicable:

10.7.1 with respect to any indemnity obligation of Tenant arising at any time during the Construction Period only, (A) the term "Landlord Parties" shall mean and shall be limited to HCP Oyster Point III LLC, a Delaware limited liability company (or any entity that that succeeds to HCP Oyster Point III LLC's interest as Landlord under the Lease) and shall not include any other person or entity; provided, however, that Landlord may include in any claim owed by Tenant to it any amount which Landlord shall pay or be obligated to indemnify any other person or entity, and (B) any indemnity obligation shall be limited to losses caused by, or arising as a result of any act or failure to act of, Tenant or Tenant's employees, agents or contractors; and

10.7.2 during the Construction Period only, Tenant's liability under this Lease for Tenant's actions or failures to act under the Lease during the Construction Period, including, without limitation, (A) Tenant's indemnity obligations, plus (B) Base Rent and Additional Rent (as a consequence of Tenant Delay), plus (C) any and all other costs payable to Landlord, including Base Rent for the first full month, or otherwise payable by Tenant under this Lease, which amount shall calculated to include (i) the accreted value of any payments previously made by Tenant plus (ii) the present value of the maximum amount that Tenant could be required to pay as of that point in time (whether or not construction is completed) discounted at Tenant's incremental borrowing rate used to classify the Lease under ASC 840 (FAS 13), shall be limited to 89.9% of Landlord's Project Costs determined as of the date of Landlord's claim for such amount owed by Tenant. As used herein, " **Landlord's Project Costs**" shall mean the amount capitalized in the Project by Landlord in accordance with GAAP, plus other costs related to the Project (including related site improvements and other Project costs) paid by Landlord to third parties other than lenders or owners of Landlord (excluding land acquisition costs, but including land carrying costs, such as interest or ground rent incurred during the Construction Period, and including all costs incurred by Landlord in connection with the development and construction of the Project); and

10.7.3 the provisions of Section 21.1(H) of the Lease shall not apply during the Construction Period.

10.7.4 For the avoidance of doubt, Landlord and Tenant agree that:

10.7.4.1 no claim by Landlord for Tenant's repudiation of this Lease at any time shall be limited under this section; and

10.7.4.2 following the end of the Construction Period, the terms of this Section 10.7 shall be of no further force or effect.

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 use reasonable efforts to notify Tenant within sixty (60) days after the date of discovery of the damage whether Landlord will restore the Premises and Common Areas and, in Landlord's reasonable judgment, the time period within which the restoration can be completed. If Landlord elects to restore Premises and Common Areas, 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 and Landlord's repair shall include the Tenant Improvements and Tenant's Alterations installed in the Premises. 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, 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.

11.3 **Tenant's Option to Terminate.** Notwithstanding anything to the contrary in Section 11.1 or 11.2, if (a) the damage occurs during the last twelve (12) months of the Lease Term, and will take more than sixty (60) days to restore, or (b) in the reasonable judgment of Landlord, the repairs cannot be completed within eight (8) months days after the date of discovery of the damage (or are not in fact completed within nine (9) 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.

11.4 **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, 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 unless expressly waived in a writing signed thereby. The waiver by either Party 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 that 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 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, condition 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), 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, 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). 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 loss of profits, however occurring) or declaratory judgment and an injunction for the relief sought, and Tenant hereby waives all other remedies, including 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) free rent or rent abatement provided in connection with such Transfer, (iii) brokerage commissions paid in connection with such Transfer, and (iv) reasonable legal fees incurred in connection with such Transfer, in each case amortized over the remaining Term of this Lease. "**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 to a Permitted Transferee that, 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 that 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, and this Lease shall remain in effect with respect

to the balance of the Premises not so recaptured. 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 this Lease from any liability under this Lease, including 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 five percent (5%), 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 that is controlled by, controls, or is under common control with, Tenant), (ii) an assignment of the Premises to an entity that acquires all or

substantially all of the assets or interests (partnership, stock or other) of Tenant, or (iii) an assignment of the Premises to an entitythat is the resulting entity of a merger or consolidation of Tenant with another entity (collectively, a "**Permitted Transferee**"), shall not be deemed a Transfer under this Article 14 (and for the avoidance of doubt, Sections 14.2, 14.3 and 14.4. shall not apply to such Transfer), provided that (A) Tenant notifies Landlord of any such assignment or sublease and promptly supplies Landlord with any documents or information 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) aboveshall 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 that 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.

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. In the event that the Building and Premises shall be surrendered in a conditionthat 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 promptly 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.

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 of 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, if Tenant is not at the time of Landlord’s request publicly listed on a nationally-recognized stock exchange or market. 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. 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 written 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 this 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 written notice from Landlord.

19.2 **Remedies Upon Default**. Upon the occurrence and during the continuance 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 that 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 that 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 that 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 that in the ordinary course of things would be likely to result therefrom, specifically including, 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), the "worth at the time of award" shall be computed by allowing interest at the rate set forth in Article 25, but in no case greater than the maximum amount of such interest permitted by law. As used in Section 19.2.1(iii), 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, 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**. If 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.

19.5 **Landlord Default**.

19.5.1 **General**. Notwithstanding anything to the contrary set forth in this Lease, Landlord shall not be in default in the performance of any obligation required to be performed by Landlord pursuant to this Lease unless Landlord fails to perform such obligation within thirty (30) days after the receipt of notice from Tenant specifying in detail Landlord's failure to perform; provided, however, if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be in default under this Lease if it shall commence such performance within such thirty (30) day period and thereafter diligently pursue the same to

completion. Upon any such default by Landlord under this Lease, Tenant may, except as otherwise specifically provided in this Lease to the contrary, exercise any of its rights provided at law or in equity.

19.5.2 **Abatement of Rent**. In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, as a result of (i) any repair, maintenance or alteration performed by Landlord, or which Landlord failed to perform, after the Rent Commencement Date and required by this Lease, or (ii) any failure to provide services, utilities or access to the Premises as required by this Lease, each as a direct result of Landlord's, negligence or willful misconduct or breach of this Lease (and except to the extent such failure is caused in whole or in part by the action or inaction of Tenant) (any such set of circumstances as set forth in items (i) or (ii), above, to be known as an "**Abatement Event**"), then Tenant shall give Landlord notice of such Abatement Event, and if such Abatement Event continues for five (5) consecutive business days after Landlord's receipt of any such notice (the "**Eligibility Period**"), then the Base Rent, Tenant's Share of Direct Expenses, and Tenant's obligation, if any, to pay for parking (to the extent not utilized by Tenant) shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use for the normal conduct of Tenant's business, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises; provided, however, in the event that Tenant is prevented from using, and does not use, a portion of the Premises for a period of time in excess of the Eligibility Period and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not effectively conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the Base Rent and Tenant's Share of Direct Expenses for the entire Premises and Tenant's obligation to pay for parking shall be abated for such time as Tenant continues to be so prevented from using, and does not use, the Premises. If, however, Tenant reoccupies any portion of the Premises during such period, the Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. To the extent an Abatement Event is caused by an event covered by Articles 5, 11 or 13 of this Lease, then Tenant's right to abate rent shall be governed by the terms of such Article 5, 11 or 13, as applicable, and the Eligibility Period shall not be applicable thereto. Except as provided in this Section 19.5.2, nothing contained herein shall be interpreted to mean that Tenant is excused from paying Rent due hereunder.

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, within the notice and cure periods provided for in this Lease, 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. LETTER OF CREDIT.

21.1 **Delivery of Letter of Credit**. Tenant shall deliver to Landlord, concurrently with Tenant's execution of this Lease, an unconditional, clean, irrevocable letter of credit (the "**L-C**") in the amount set forth in Section 8 of the Lease Summary (the "**L-C Amount**"), which L-C shall be issued by a money-center, solvent and nationally recognized bank (a bank that accepts deposits, maintains accounts, has a local San Francisco Bay Area office that will negotiate a letter of credit, and whose deposits are insured by the FDIC) reasonably acceptable to Landlord (such approved, issuing bank being referred to herein as the "**Bank**"), which Bank must have a rating from Standard and Poors Corporation of A- or better (or any equivalent rating thereto from any successor or substitute rating service selected by Landlord) and a letter of credit issuer rating from Moody's Investor Service of A3 or better (or any equivalent rating thereto from any successor rating agency thereto)) (collectively, the " **Bank's Credit Rating Threshold**"), and which L-C shall be in the form of **Exhibit H**, attached hereto. Landlord hereby approves Wells Fargo Bank as the Bank. Tenant shall pay all expenses, points and/or fees incurred by Tenant in obtaining the L-C. The L-C shall (i) be "callable" at sight, irrevocable and unconditional, (ii) be maintained in effect, whether through renewal or extension, for the period commencing on the Execution Date and continuing until the date (the "**L-C Expiration Date**") that is no less than sixty (60) days after the expiration of the Lease Term as the same may be

extended, and Tenant shall deliver a new L-C or certificate of renewal or extension to Landlord at least thirty (30) days prior to the expiration of the L-C then held by Landlord, without any action whatsoever on the part of Landlord, (iii) be fully assignable by Landlord, its successors and assigns, (iv) permit partial draws and multiple presentations and drawings, and (v) be otherwise subject to the Uniform Customs and Practices for Documentary Credits (1993-Rev), International Chamber of Commerce Publication #500, or the International Standby Practices-ISP 98, International Chamber of Commerce Publication #590. Landlord shall have the right to draw down an amount up to the face amount of the L-C if any of the following shall have occurred or be applicable: (A) such amount is due to Landlord under the terms and conditions of this Lease, and has not been paid within applicable notice and cure periods (or, if Landlord is prevented by law from providing notice, within the period for payment set forth in this Lease, plus applicable cure periods, assuming that notice is deemed delivered on the first business day following the expiration of the period for payment set forth in this Lease), or (B) Tenant has filed a voluntary petition under the U. S. Bankruptcy Code or any state bankruptcy code (collectively, "**Bankruptcy Code**"), or (C) an involuntary petition has been filed against Tenant under the Bankruptcy Code that is not dismissed within thirty (30) days, or (D) this Lease has been rejected, or is deemed rejected, under Section 365 of the U.S. Bankruptcy Code, following the filing of a voluntary petition by Tenant under the Bankruptcy Code, or the filing of an involuntary petition against Tenant under the Bankruptcy Code, or (E) the Bank has notified Landlord that the L-C will not be renewed or extended through the L-C Expiration Date, and Tenant has not provided a replacement L-C that satisfies the requirements of this Lease at least thirty (30) days prior to such expiration, or (F) Tenant is placed into receivership or conservatorship, or becomes subject to similar proceedings under Federal or State law, or (G) Tenant executes an assignment for the benefit of creditors, or (H) if (1) any of the Bank's (other than Wells Fargo Bank) Fitch Ratings (or other comparable ratings to the extent the Fitch Ratings are no longer available) have been reduced below the Bank's Credit Rating Threshold, or (2) there is otherwise a material adverse change in the financial condition of the Bank, and Tenant has failed to provide Landlord with a replacement letter of credit, conforming in all respects to the requirements of this Article 21 (including the requirements placed on the issuing Bank more particularly set forth in this Section 21.1), in the amount of the applicable L-C Amount, within ten (10) business days following Landlord's written demand therefor (with no other notice or cure or grace period being applicable thereto, notwithstanding anything in this Lease to the contrary) (each of the foregoing being an "**L-C Draw Event**"). The L-C shall be honored by the Bank regardless of whether Tenant disputes Landlord's right to draw upon the L-C. In addition, in the event the Bank is placed into receivership or conservatorship by the Federal Deposit Insurance Corporation or any successor or similar entity, then, effective as of the date such receivership or conservatorship occurs, said L-C shall be deemed to fail to meet the requirements of this Article 21, and, within ten (10) business days following Landlord's notice to Tenant of such receivership or conservatorship (the "**L-C FDIC Replacement Notice**"), Tenant shall replace such L-C with a substitute letter of credit from a different issuer (which issuer shall meet or exceed the Bank's Credit Rating Threshold and shall otherwise be acceptable to Landlord in its reasonable discretion) and that complies in all respects with the requirements of this Article 21. If Tenant fails to replace such L-C with such conforming, substitute letter of credit pursuant to the terms and conditions of this Section 21.1, then, notwithstanding anything in this Lease to the contrary, Landlord shall have the right to declare Tenant in default of this Lease for which there shall be no notice or grace or cure periods being applicable thereto (other than the aforesaid ten (10) business day period). Tenant shall be responsible for the payment of any and all Tenant's and Bank's costs incurred with the review of any replacement L-C, which replacement is required pursuant to this Section or is otherwise requested by Tenant. In the event of an assignment by Tenant of its interest in this Lease (and irrespective of whether Landlord's consent is required for such assignment), the acceptance of any replacement or substitute letter of credit by Landlord from the assignee shall be subject to Landlord's prior written approval, in Landlord's reasonable discretion, and the actual and reasonable attorney's fees incurred by Landlord in connection with such determination shall be payable by Tenant to Landlord within thirty (30) days of billing.

21.2 **Application of L-C**. Tenant hereby acknowledges and agrees that Landlord is entering into this Lease in material reliance upon the ability of Landlord to draw upon the L-C upon the occurrence of any L-C Draw Event. In the event of any L-C Draw Event, Landlord may, but without obligation to do so, and without notice to Tenant (except in connection with an L-C Draw Event under Section 21.1(H)), draw upon the L-C, in part or in whole, in the amount necessary to cure any such L-C Draw Event and/or to compensate Landlord for any and all damages of any kind or nature sustained or that Landlord reasonably estimates that it will sustain resulting from Tenant's default of this Lease or other L-C Draw Event and/or to compensate Landlord for any and all damages arising out of, or incurred in connection with, the termination of this Lease, including, without limitation, those specifically identified in Section 1951.2 of the California Civil Code. The use, application or retention of the L-C, or any portion thereof,

by Landlord shall not prevent Landlord from exercising any other right or remedy provided by this Lease or by any applicable law, it being intended that Landlord shall not first be required to proceed against the L-C, and such L-C shall not operate as a limitation on any recovery to which Landlord may otherwise be entitled. Tenant agrees and acknowledges that (i) the L-C constitutes a separate and independent contract between Landlord and the Bank, (ii) Tenant is not a third party beneficiary of such contract, (iii) Tenant has no property interest whatsoever in the L-C or the proceeds thereof, and (iv) in the event Tenant becomes a debtor under any chapter of the Bankruptcy Code, Tenant is placed into receivership or conservatorship, and/or there is an event of a receivership, conservatorship or a bankruptcy filing by, or on behalf of, Tenant, neither Tenant, any trustee, nor Tenant's bankruptcy estate shall have any right to restrict or limit Landlord's claim and/or rights to the L -C and/or the proceeds thereof by application of Section 502(b)(6) of the U. S. Bankruptcy Code or otherwise.

21.3 **Maintenance of L-C by Tenant**If, as a result of any drawing by Landlord of all or any portion of the L-C, the amount of the L-C shall be less than the L-C Amount, Tenant shall, within ten (10) business days thereafter, provide Landlord with additional letter(s) of credit in an amount equal to the deficiency, and any such additional letter(s) of credit shall comply with all of the provisions of this Article 21. Tenant further covenants and warrants that it will neither assign nor encumber the L-C or any part thereof and that neither Landlord nor its successors or assigns will be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance. Without limiting the generality of the foregoing, if the L-C expires earlier than the L-C Expiration Date, Landlord will accept a renewal thereof (such renewal letter of credit to be in effect and delivered to Landlord, as applicable, not later than thirty (30) days prior to the expiration of the L-C), which shall be irrevocable and automatically renewable as above provided through the L-C Expiration Date upon substantially the same terms as the expiring L-C or such other terms as may be acceptable to Landlord in its reasonable discretion. If Tenant exercises its option to extend the Lease Term pursuant to Section 2.2 then, not later than thirty (30) days prior to the commencement of the Option Term, Tenant shall deliver to Landlord a new L C or certificate of renewal or extension evidencing the L-C Expiration Date as thirty (30) days after the expiration of the Option Term. However, if the L-C is not timely renewed, or if Tenant fails to maintain the L-C in the amount and in accordance with the terms set forth in this Article 21, Landlord shall have the right to present the L-C to the Bank in accordance with the terms of thisArticle 21, and the proceeds of the L-C shall be applied by Landlord against any Rent payable by Tenant under this Lease that is not paid when due and/or to pay for all losses and damages that Landlord has suffered or that Landlord reasonably estimates that it will suffer as a result of any breach or default by Tenant under this Lease. In the event Landlord elects to exercise its rights as provided above, (I) any unused proceeds shall constitute the property of Landlord (and not Tenant's property or, in the event of a receivership, conservatorship, or a bankruptcy filing by, or on behalf of, Tenant, property of such receivership, conservatorship or Tenant's bankruptcy estate) and need not be segregated from Landlord's other assets, and (II) Landlord agrees to pay to Tenant within thirty (30) days after the L-C Expiration Date the amount of any proceeds of the L-C received by Landlord and not applied against any Rent payable by Tenant under this Lease that was not paid when due or used to pay for any losses and/or damages suffered by Landlord (or reasonably estimated by Landlord that it will suffer) as a result of any breach or default by Tenant under this Lease; provided, however, that if prior to the L-C Expiration Date a voluntary petition is filed by Tenant, or an involuntary petition is filed against Tenant by any of Tenant's creditors, under the Bankruptcy Code, then Landlord shall not be obligated to make such payment in the amount of the unused L-C proceeds until either all preference issues relating to payments under this Lease have been resolved in such bankruptcy or reorganization case or such bankruptcy or reorganization case has been dismissed. If Landlord draws on the L-C due to Tenant's failure to timely renew or provide a replacement L-C, such failure shall not be considered a default under this Lease and Landlord shall return such cash proceeds upon Tenant's presentation of a replacement L-C that satisfies the requirements of this Lease, subject to reasonable satisfaction of any preference risk to Landlord.

21.4 **Transfer and Encumbrance**. The L-C shall also provide that Landlord may, at any time and without notice to Tenant and without first obtaining Tenant's consent thereto, transfer (one or more times) its entire interest in and to the L-C to another party, person or entity, provided such transfer is in connection with the assignment by Landlord of its rights and interests in and to this Lease. In the event of a transfer of Landlord's interest in under this Lease, Landlord shall transfer the L-C to the transferee and thereupon Landlord shall, without any further agreement between the Parties, be released by Tenant from all liability therefor, and it is agreed that the provisions hereof shall apply to every transfer or assignment of the whole of said L-C to a new landlord. In connection with any such transfer of the L-C by Landlord, Tenant shall, at Tenant's sole cost and expense, execute and submit to the Bank such applications, documents and instruments as may be necessary to effectuate such transfer and, Tenant shall be

responsible for paying the Bank's transfer and processing fees in connection therewith; provided that, Landlord shall have the right (in its sole discretion), but not the obligation, to pay such fees on behalf of Tenant, in which case Tenant shall reimburse Landlord within ten (10) business days after Tenant's receipt of an invoice from Landlord therefor.

21.5 **L-C Not a Security Deposit**. Landlord and Tenant (1) acknowledge and agree that in no event or circumstance shall the L-C or any renewal thereof or substitute therefor or any proceeds thereof be deemed to be or treated as a "security deposit" under any law applicable to security deposits in the commercial context, including Section 1950.7 of the California Civil Code, as such Section now exists or as it may be hereafter amended or succeeded (the "**Security Deposit Laws**"), (2) acknowledge and agree that the L-C (including any renewal thereof or substitute therefor or any proceeds thereof) is not intended to serve as a security deposit, and the Security Deposit Laws shall have no applicability or relevancy thereto, and (3) waive any and all rights, duties and obligations that any such Party may now, or in the future will, have relating to or arising from the Security Deposit Laws. Tenant hereby irrevocably waives and relinquishes the provisions of Section 1950.7 of the California Civil Code and any successor statute, and all other provisions of law, now or hereafter in effect, that (x) establish the time frame by which a landlord must refund a security deposit under a lease, and/or (y) provide 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 premises, it being agreed that Landlord may, in addition, claim those sums specified in this Article 21 and/or those sums reasonably necessary to (a) compensate Landlord for any loss or damage caused by Tenant's breach of this Lease, including any damages Landlord suffers following termination of this Lease, and/or (b) compensate Landlord for any and all damages arising out of, or incurred in connection with, the termination of this Lease, including those specifically identified in Section 1951.2 of the California Civil Code. Tenant agrees not to interfere in any way with any payment to Landlord of the proceeds of the L-C, either prior to or following a "draw" by Landlord of all or any portion of the L-C, regardless of whether any dispute exists between Tenant and Landlord as to Landlord's right to draw down all or any portion of the L-C. No condition or term of this Lease shall be deemed to render the L-C conditional and thereby afford the Bank a justification for failing to honor a drawing upon such L-C in a timely manner. Tenant shall not request or instruct the Bank of any L-C to refrain from paying sight draft(s) drawn under such L-C.

21.6 **Remedy for Improper Drafts**. Tenant's sole remedy in connection with the improper presentment or payment of sight drafts drawn under any L-C shall be the right to obtain from Landlord a refund of the amount of any sight draft(s) that were improperly presented or the proceeds of which were misapplied, and reasonable actual out-of-pocket costs and attorneys' fees, provided that at the time of such refund, Tenant increases the amount of such L-C to the amount (if any) then required under the applicable provisions of this Lease. Tenant acknowledges that the presentment of sight drafts drawn under any L-C, or the Bank's payment of sight drafts drawn under such L-C, could not under any circumstances cause Tenant injury that could not be remedied by an award of money damages, and that the recovery of money damages would be an adequate remedy therefor. In the event Tenant shall be entitled to a refund as aforesaid and Landlord shall fail to make such payment within ten (10) business days after demand, Tenant shall have the right to deduct the amount thereof from the next installment(s) of Base Rent.

21.7 **Reduction in L-C Amount**. Notwithstanding anything to the contrary in this Lease, provided that (a) Tenant maintains a market capitalization in excess of One Billion Dollars ($1,000,000,000.00) (the "**Market Cap Test**") at all times during the fifth (5th) Lease Year, and (b) Tenant is not in default under this Lease at the expiration of the fifth (5th) Lease Year, the L-C Amount shall be reduced by fifty percent (50%) upon the first day of the sixth (6th) Lease Year. If Tenant does not meet the Market Cap Test in the fifth (5th) Lease Year, then on the first time after the 5th Lease Year that Tenant meets the Market Cap Test for a continuous twelve (12) month period, and is not in default under this Lease, then the L-C Amount shall be reduced by fifty percent (50%).

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 use an experienced and qualified contractor approved in writing by Landlord, and comply with all of the other provisions of Articles 7 and 8. Tenant shall pay all costs in connection therewith. Tenant shall not be obligated to remove any Lines located in or serving the Premises upon 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 monument sign outside the front entrance to the Building (which monument sign shall be installed by Landlord at its sole cost prior to the Rent Commencement Date), and (ii) all exterior signage on the Building permitted by the City of South San Francisco, including on those elevations of the Building facing Highway 101 and Oyster Point Boulevard, so long as such signage is consistent with that certain Master Signage Program dated December 2012 and prepared by DES Architects + Engineers (collectively, "**Tenant Signage**"); provided, however, in no event shall Tenant's Signage include an "Objectionable Name," as that term is defined inSection 23.3,. 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 that relates to an entity that is of a character or reputation, or is associated with a political faction or orientation, that is inconsistent with the quality of the Project, or that would otherwise reasonably offend a landlord of the Comparable Buildings (an "**Objectionable Name**"). Landlord agrees that each of "Five Prime Therapeutics, Inc.," "Five Prime Therapeutics," "FivePrime" and "Five Prime" and the tagline "Protein Medicines for Life" in connection with any of the foregoing is not an Objectionable Name.

23.3 **Prohibited Signage and Other Items**. Any signs, notices, logos, pictures, names or advertisements that are installed and that have not been separately approved by Landlord may be removed without notice by Landlord at the sole expense of Tenant. Landlord may in its reasonable discretion require the removal of any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Building), or other items reasonably visible from the exterior of the Premises or Building.

24. COMPLIANCE WITH LAW. Tenant shall not do anything or suffer anything to be done in or about the Premises or the Project that will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or that may hereafter be enacted or promulgated. At its sole cost and expense, Tenant shall promptly comply with all such governmental measures pertaining to Tenant's use of the Premises. 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 pertaining to Tenant's use of the Premises. 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.

For purposes of Section 1938 of the California Civil Code, Landlord hereby discloses to Tenant, and Tenant hereby acknowledges, that the Project, Building and Premises have not undergone inspection by a Certified Access Specialist (CASp).

As required by Section 1938(e) of the California Civil Code, Landlord hereby states as follows: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises." In furtherance of the foregoing, Landlord and Tenant hereby agree as follows: (a) any CASp inspection requested by Tenant shall be conducted, at Tenant's sole cost and expense, by a CASp approved in advance by Landlord; and (b) Tenant shall be responsible, at Tenant's sole cost and expense, to make any modifications to the Premises that it deems to be required as a result of any such CASp inspection.

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 that are not paid within ten (10) business 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, 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; 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 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 upon twenty four (24) hours' prior notice to Tenant (except in the case of an emergency) to enter the Premises at all reasonable times 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 non-responsibility

(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 this 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. Without limiting the foregoing, except in an emergency, Landlord shall not enter into any portion of the Premises identified to Landlord as an area containing sensitive business information unless accompanied by a representative of Tenant. Landlord shall hold confidential any information regarding Tenant's business that it may learn as a result ofany 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), commencing on the Rent Commencement Date, to use the amount of parking set forth inSection 9 of the Summary, in the on-site parking lot and garage that serves the Building, and to the exclusive use of the five (5) dedicated visitor parking spaces as set forth on **Exhibit A-1**. Tenant shall abide by all reasonable rules and regulations that 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 for the dedicated parking spaces, 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 and dedicated parking spaces 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 or dedicated parking spaces.

29. MISCELLANEOUS PROVISIONS.

29.1 **Interpretation**. 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. In this Lease, unless otherwise specified: (a) the words "include" and "including" shall be construed to be followed by the words "without limitation"; (b) the word "or" shall not be deemed to be used in the exclusive sense and shall instead be used in the inclusive sense to mean "and/or"; (c) words such as "herein", "hereof", and "hereunder" refer to this Lease as a whole and not merely to the particular provision in which such words appear; and (d) except as otherwise indicated, all references in this Lease to "Articles," "Sections" and "Exhibits" are intended to refer to Articles of this Lease, Sections of this Lease and Exhibits to this Lease.

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 the interest of Landlord in the Project, 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 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 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 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.

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 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 Execution Date, 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 to the prevailing Party 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 and all claims relating to or arising out of this Lease or the breach thereof shall be governed by and construed in accordance with the laws of the State of California without reference to its conflict of laws principles. 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 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 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 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 that could have an adverse effect on the Building Structure or the Building Systems, or that could affect the exterior appearance of the Building, or (iii) matters covered by Article 4 (Additional Rent), or Article 19 (Defaults; Remedies) (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. that are in excess of that present in a fully constructed project. Landlord shall use commercially reasonable efforts to minimize the impact of such construction. Tenant hereby waives any and all rent offsets or claims of constructive eviction that 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 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.

29.32 **Securities Law Filings and Disclosure**. Landlord acknowledges that (a) Tenant will file a Current Report on Form 8-K (the "**Current Report**") with the Securities and Exchange Commission (the "**SEC**") within four (4) business days following the Execution Date, (b) the Current Report will include a description of the terms and conditions of this Lease, (c) a copy of this Lease will be attached as an exhibit to the Current Report or a subsequently filed Quarterly Report on Form 10-Q or Annual Report on Form 10-K filed with the SEC, and (d) Tenant will not seek confidential treatment of any of the terms and conditions of this Lease, notwithstanding any provision of this Lease to the contrary. Landlord hereby consents to Tenant's filing of the Current Report and the filing of this Lease as an exhibit to any SEC filing requiring such filing and waives any obligation of Tenant to seek confidential treatment of any of the terms and conditions of this Lease in connection with any such filing.

29.33

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executedas of the Execution Date.

LANDLORD:	TENANT:
HCP OYSTER POINT III LLC, a Delaware limited liability company	FIVE PRIME THERAPEUTICS, INC., a Delaware corporation
By: /s/ Jonathan M. Bergschneider Jonathan M. Bergschneider Executive Vice President	By: /s/ Lewis T. Williams Lewis T. Williams President and Chief Executive Officer

EXHIBIT A

OUTLINE OF PREMISES; PROJECT SITE PLAN

EXHIBIT A-1

TENANT RESERVED PARKING SPACES

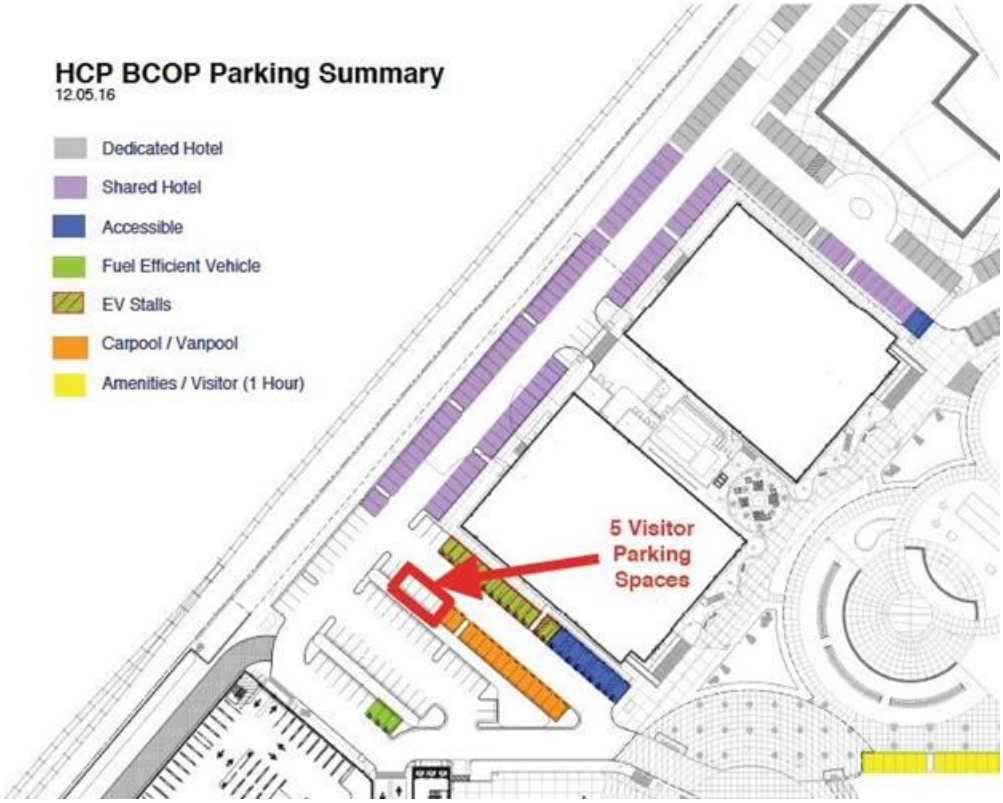

EXHIBIT B

TENANT WORK LETTER

1. **Defined Terms**. As used in this Tenant Work Letter, the following capitalized terms have the following meanings:

(a) **Approved TI Plans**: Plans and specifications prepared by the applicable Architect for the Tenant Improvements and approved by Landlord and Tenant in accordance with Paragraph 2 of this Tenant Work Letter, subject to further modification from time to time to the extent provided in and in accordance with such Paragraph 2.

(b) **Architect**: Landlord shall engage DGA with respect to any Tenant Improvements which Landlord is to cause to be constructed pursuant to this Tenant Work Letter.

(c) **Tenant Change Request**: See definition in Paragraph 2(c)(ii) hereof.

(d) **Final TI Working Drawings**: See definition in Paragraph 2(a) hereof.

(e) **General Contractor**: The general contractor reasonably selected by Landlord with respect to Landlord's TI Work. Tenant shall have no right to direct or control such General Contractor.

(f) **Landlord's TI Work**: Any Tenant Improvements which Landlord is to construct or install pursuant to this Tenant Work Letter or by mutual agreement of Landlord and Tenant from time to time.

(g) **Project Manager**. Project Management Advisors, Inc., or any other project manager designated by Landlord in its reasonable discretion from time to time to act in a supervisory, oversight, project management or other similar capacity on behalf of Landlord in connection with the design and/or construction of the Tenant Improvements.

(h) **Punch List Work**: Minor corrections of construction or decoration details, and minor mechanical adjustments, that are required in order to cause any applicable portion of the Tenant Improvements or Landlord's Work as constructed to conform to the Approved TI Plans or this Tenant Work Letter in all material respects and that do not materially interfere with Tenant's use or occupancy of the Building and the Premises.

(i) **Substantial Completion Certificate**: See definition in Paragraph 3(a) hereof.

(j) **Tenant Delay**: Any of the following types of delay in the completion of construction of Landlord's TI Work (but in each instance, only to the extent that any of the following has actually and proximately caused substantial completion of Landlord's TI Work to be delayed):

(i) Any delay resulting from Tenant's failure to furnish, in a timely manner, information reasonably requested by Landlord or by Landlord's Project Manager in connection with the design or construction of Landlord's TI Work, or from Tenant's failure to approve in a timely manner any matters requiring approval by Tenant;

(ii) Any delay resulting from Tenant Change Requests initiated by Tenant, including any delay resulting from the need to revise any drawings or obtain further governmental approvals as a result of any such Tenant Change Request; or

(iii) Any delay caused by Tenant (or Tenant's contractors, agents or employees) materially interfering with the performance of Landlord's TI Work, provided that Landlord shall have given Tenant prompt notice of such material interference and, before the first time a Tenant Delay is

deemed to have occurred as a result of such delay, such interference has continued for more than twenty-four (24) hours after Tenant's receipt of such notice

(k) **Tenant Improvements**: The improvements to or within the Building shown on the Approved TI Plans from time to time and to be constructed by Landlord pursuant to the Lease and this Tenant Work Letter. The term "Tenant Improvements" does not include the improvements existing in the Building and Premises on the Effective Date.

(l) **Unavoidable Delays**: Delays due to acts of God, acts of public agencies, labor disputes, strikes, fires, freight embargoes, inability (despite the exercise of due diligence) to obtain supplies, materials, fuels or permits, or other causes or contingencies (excluding financial inability) beyond the reasonable control of Landlord or Tenant, as applicable. Landlord shall use commercially reasonable efforts to provide Tenant with prompt notice of any Unavoidable Delays.

(m) Capitalized terms not otherwise defined in this Tenant Work Letter shall have the definitions set forth in the Lease.

2. **Plans and Construction**. Landlord and Tenant shall comply with the procedures set forth in this Paragraph 2 in preparing, delivering and approving matters relating to the Tenant Improvements.

(a) Approved Plans and Working Drawings for Tenant Improvements. Tenant shall promptly and diligently work with the Architect to cause to be prepared and delivered to Landlord for approval (which approval shall not be unreasonably withheld, conditioned or delayed by Landlord) proposed schematic plans and outline specifications for the Tenant Improvements. Landlord shall reimburse the Architect directly for the cost of the initial schematic plans and outline specifications and one revision thereof, and such costs shall not be charged to the Tenant Improvement Allowance. Following mutual approval of such proposed schematic plans and outline specifications by Landlord and by Tenant (as so approved, the "**Approved Schematic Plans**"), Tenant shall then work with the Architect to cause to be prepared, promptly and diligently (assuming timely delivery by Landlord of any information and decisions required to be furnished or made by Landlord in order to permit preparation of final working drawings, all of which information and decisions Landlord will deliver promptly and with reasonable diligence), and delivered to Landlord for approval (which approval shall not be unreasonably withheld, conditioned or delayed by Landlord) final detailed working drawings and specifications for the Tenant Improvements, including (without limitation) any applicable life safety, mechanical, electrical and plumbing working drawings and final architectural drawings (collectively, "**Final TI Working Drawings**"), which Final TI Working Drawings shall substantially conform to the Approved Schematic Plans. Upon receipt from Tenant of proposed schematic plans and outline specifications, proposed Final TI Working Drawings, any other plans and specifications, or any revisions or resubmittals of any of the foregoing, as applicable, Landlord shall promptly and diligently (and in all events within 10 business days after receipt in the case of an initial submittal of schematic plans and outline specifications or proposed Final TI Working Drawings, and within 5 business days after receipt in the case of any other plans and specifications or any revisions or resubmittals of any of the foregoing) either approve such proposed schematic plans and outline specifications or proposed Final TI Working Drawings, as applicable, or set forth in writing with particularity any changes necessary to bring the aspects of such proposed schematic plans and outline specifications or proposed Final TI Working Drawings into a form which will be reasonably acceptable to Landlord. Upon approval of the Final TI Working Drawings by Landlord and Tenant, the Final TI Working Drawings shall constitute the **"Approved TI Plans,"** superseding (to the extent of any inconsistencies) any inconsistent features of the previously existing Approved Schematic Plans. Tenant shall respond to any request for information or approval of plans or drawings from Landlord or Architect within five (5) business days. Tenant acknowledges that the Tenant Improvements will include the items set forth on Schedule 2 to this Exhibit B, in order to allow the Premises to achieve a LEED "Silver" certification level.

(b) Cost of Improvements. "**Cost of Improvement**" shall mean, with respect to any item or component for which a cost must be determined in order to allocate such cost, or an increase in such cost, to Tenant pursuant to this Tenant Work Letter, the sum of the following (unless otherwise agreed in writing by Landlord and Tenant with respect to any specific item or component or any category of items or components): (i) all sums paid to contractors or subcontractors for labor and materials furnished in connection with construction of such item or component; (ii) all costs, expenses, payments, fees and charges (other than penalties) paid to or at the direction of any city, county or other governmental or quasi-governmental authority or agency which are required to be paid in order

to obtain all necessary governmental permits, licenses, inspections and approvals relating to construction of such item or component; (iii) engineering and architectural fees for services rendered in connection with the design and construction of such item or component (including, but not limited to, the Architect for such item or component and an electrical engineer, mechanical engineer, structural engineer and civil engineer, if applicable); (iv) sales and use taxes; (v) testing and inspection costs; (vi) the cost of power, water and other utility facilities and the cost of collection and removal of debris required in connection with construction of such item or component; (vii) costs for builder's risk insurance; and (viii) all other "hard" and "soft" costs incurred in the construction of such item or component in accordance with the Approved TI Plans (if applicable) and this Tenant Work Letter; provided that the Cost of Improvements shall not include any internal or third-party costs incurred by Landlord except as provided in Section 2(e).

(c) **Construction of Landlord's TI Work**. Following completion of the Approved TI Plans, Landlord shall apply for and use reasonable efforts to obtain the necessary permits and approvals to allow construction of all Tenant Improvements. Upon receipt of such permits and approvals, Landlord shall, at Tenant's expense (subject to Landlord's payment of the Tenant Improvement Allowance), construct and complete the Tenant Improvements substantially in accordance with the Approved TI Plans, subject to Unavoidable Delays and Tenant Delays (if any). Landlord shall use commercially reasonable efforts to complete the Tenant Improvements on or before December 1, 2017, subject to Unavoidable Delays and Tenant Delays (if any). Such construction of the Tenant Improvements and Landlord's Work shall be performed in a neat, good and workmanlike manner, free of defects, using new materials and equipment of good quality, and shall materially conform to all applicable laws, rules, regulations, codes, ordinances, requirements, covenants, conditions and restrictions applicable thereto in force at the time such work is completed. Landlord shall cause Hathaway Dinwiddie, Landmark Builders and any other potential general contractors to bid on general conditions and fee for construction of the Tenant Improvements and provide an estimate for the direct cost of the Tenant Improvements. All bids will be opened together with Landlord selecting the general contractor to construct the Tenant Improvements, subject to the reasonable approval of Tenant. Tenant shall have the right to value engineer the proposed Tenant Improvements before the final bid is selected. Tenant shall also have the right to approve all subcontractors engaged by the General Contractor, which approval shall not be unreasonably withheld, conditioned or delayed. Landlord shall enter into a stipulated sum or guaranteed maximum price construction contract with the General Contractor in the amount of the construction costs approved by Landlord and Tenant.

(d) **Changes**.

(i) If Landlord determines at any time that changes in the Final TI Working Drawings or in any other aspect of the Approved TI Plans relating to any item of Landlord's TI Work are required as a result of applicable law or governmental requirements, or are required as a result of unanticipated conditions encountered in the course of construction, then Landlord shall promptly (A) advise Tenant of such circumstances and (B) at Tenant's sole cost and expense, subject to Landlord's payment of the Tenant Improvement Allowance, cause revised Final TI Working Drawings to be prepared by the Architect and submitted to Tenant, for Tenant's approval, which shall not be unreasonably withheld. Failure of Tenant to deliver to Landlord written notice of disapproval and specification of such required changes on or before any deadline reasonably specified by Landlord (which shall not be less than three (3) business days after delivery thereof to Tenant) shall constitute and be deemed to be a Tenant Delay to the extent Landlord is delayed in completing Landlord's TI Work.

(ii) If Tenant at any time desires any changes, alterations or additions to the Final TI Working Drawings, Tenant shall submit a detailed written request to Landlord specifying such changes, alterations or additions (a "**Tenant Change Request**"). Upon receipt of any such request, Landlord, within five (5) business days, shall promptly notify Tenant of (A) whether the matters proposed in the Tenant Change Request are approved by Landlord (which approval shall not be unreasonably withheld, conditioned or delayed by Landlord), (B) Landlord's estimate of the number of days of delay, if any, which shall be caused in the construction of the Tenant Improvements by such Tenant Change Request if implemented (including, without limitation, delays due to the need to obtain any revised plans or drawings and any governmental approvals), and (C) Landlord's estimate of the increase, if any, which shall occur in the cost of design, permitting, project management and construction of the Tenant Improvements affected by such Tenant Change Request if such Tenant Change Request is implemented (including, but not limited to, any costs of

compliance with laws or governmental regulations that become applicable because of the implementation of the Tenant Change Request). If Landlord approves the Tenant Change Request and Tenant notifies Landlord in writing, within three (3) business days after receipt of such notice from Landlord, of Tenant's approval of the Tenant Change Request (including the estimated delays and cost increases, if any, described in Landlord's notice), then Landlord shall cause such Tenant Change Request to be implemented and Tenant shall be responsible for all actual costs or cost increases resulting from or attributable to the implementation of the Tenant Change Request, and any delays resulting therefrom shall be deemed to be a Tenant Delay (subject to Landlord's payment of the Tenant Improvement Allowance). If Tenant fails to notify Landlord in writing of Tenant's approval of such Tenant Change Request within said three (3) business day period, then such Tenant Change Request shall be deemed to be withdrawn and shall be of no further effect.

(e) **Project Management**. Unless and until revoked by Landlord by written notice delivered to Tenant, Landlord hereby (i) delegates to Project Manager the authority to exercise all approval rights, supervisory rights and other rights or powers of Landlord under this Tenant Work Letter with respect to the design and construction of the Tenant Improvements, and (ii) requests that Tenant work with Project Manager with respect to any logistical or other coordination matters arising in the course of construction of the Tenant Improvements, including monitoring Tenant's compliance with its obligations under this Tenant Work Letter and under the Lease with respect to the design and construction of the Tenant Improvements. Tenant acknowledges the foregoing delegation and request, and agrees to cooperate reasonably with Project Manager as Landlord's representative pursuant to such delegation and request. The fees and charges of Project Manager for such services shall be at Tenant's sole expense, subject to Landlord's payment of the Tenant Improvement Allowance. Such fees and charges shall be payable monthly, based on the aggregate amount of $3.84 per rentable square foot of the Premises (subject to increase if Tenant expends more than $145 per square foot of the Premises on construction of the Tenant Improvements), and, unless Tenant expends more than $145 per rentable square foot of the Premises on construction of the Tenant Improvements, shall not exceed $444,276.00. In the event Tenant expends more than $145 per rentable square foot, such fees shall be increased by 2.65% of the amount expended above $145 per rentable square foot.

3. **Completion**.

(a) When Landlord receives written certification from Architect that construction of the Tenant Improvements and Landlord's Work has been completed in accordance with the Approved TI Plans and Section 3(e) below (except for Punch List Work), Landlord shall prepare and deliver to Tenant a certificate (or separate certificates for the Tenant Improvements and Landlord's Work) signed by Landlord, Architect and General Contractor (the "**Substantial Completion Certificate**") (i) certifying that the construction of the Tenant Improvements and Landlord's Work has been substantially completed in a good and workmanlike manner in accordance with the Approved TI Plans and Section 3(e) below in all material respects, subject only to completion of Punch List Work, and specifying the date of that completion, and (ii) certifying that the Tenant Improvements and Landlord's Work comply in all material respects with all laws, rules, regulations, codes, ordinances, requirements, covenants, conditions and restrictions applicable thereto at the time of such delivery, including the ADA and all building codes. Upon receipt by Tenant of the Substantial Completion Certificate and tender of possession of the Premises by Landlord to Tenant, and receipt of any certificate of occupancy or its legal equivalent, or other required sign-offs from any applicable governmental authority, allowing the legal occupancy of the Premises, the Tenant Improvements will be deemed delivered to Tenant and "Ready for Occupancy" for all purposes of the Lease (subject to Landlord's continuing obligations with respect to any Punch List Work, and to any other express obligations of Landlord under the Lease or this Tenant Work Letter with respect to such Tenant Improvements).

(b) Immediately prior to delivery of the Substantial Completion Certificate for the Tenant Improvements, Project Manager or other representatives of Landlord shall conduct one or more "walkthroughs" of the Building with Tenant and Tenant's representatives, to identify any items of Punch List Work that may require correction and to prepare a joint punch list reflecting any such items, following which Landlord shall diligently complete the Punch List Work reflected in such joint punch list. The Punch List Work shall be attached to the Substantial Completion Certificate, and shall not include damage caused by Tenant or any of Tenant's agents in connection with any work performed by Tenant in the Premises, or required as a result of Tenant's move-in to the Premises. At any time within thirty (30) days after delivery of such Substantial Completion Certificate, Tenant shall be entitled to submit one or more lists to Landlord supplementing such joint punch list by specifying any additional items of Punch List Work to be performed on the applicable Tenant Improvements and Landlord's Work, and upon

receipt of such list(s), Landlord shall diligently complete such additional Punch List Work. Promptly after Landlord provides Tenant with the Substantial Completion Certificate and completes all applicable Punch List Work for the Building, Landlord shall cause the recordation of a Notice of Completion (as defined in the California Civil Code) with respect to the Tenant Improvements.

(c) All construction, product and equipment warranties and guaranties obtained by Landlord with respect to the Tenant Improvements and Landlord's Work shall, to the extent reasonably obtainable, include a provision that such warranties and guaranties shall also run to the benefit of Tenant, and Landlord shall cooperate with Tenant in a commercially reasonable manner to assist in enforcing all such warranties and guaranties for the benefit of Tenant.

(d) Notwithstanding any other provisions of this Tenant Work Letter or of the Lease, if Landlord is delayed in substantially completing any of the Tenant Improvements as a result of any Tenant Delay, and if the Rent Commencement Date is being determined under clause (i) of Section 3.2 of the Lease Summary, then notwithstanding any other provision of the Lease to the contrary, then the Premises shall be deemed to have been Ready for Occupancy on the date the Premises would have been Ready for Occupancy absent such Tenant Delay.

(e) Notwithstanding any other provisions of this Tenant Work Letter or of the Lease, Landlord shall be responsible, at Landlord's sole cost and expense, and without deduction from the Tenant Improvement Allowance, to construct and deliver the Base Building and "Warm Shell" components of the Premises ("**Landlord's Work**"), which shall consist of the items set forth on Schedule 1 to this Exhibit B (the "**Warm Shell Schedule**").

4. **Payment of Costs**.

(a) **Tenant Improvement Allowance**. Subject to any restrictions, conditions or limitations expressly set forth in this Tenant Work Letter or in the Lease or as otherwise expressly provided by mutual written agreement of Landlord and Tenant, the cost of construction of the Tenant Improvements shall be paid or reimbursed by Landlord up to a maximum amount as set forth in Section 5 of the Summary to the Lease (the "**Tenant Improvement Allowance**"), which amount is being made available by Landlord to be applied towards the Cost of Improvements for the construction of the Tenant Improvements in the Premises. Tenant shall be responsible, at its sole cost and expense, for payment of the entire Cost of Improvements of the Tenant Improvements in excess of the Tenant Improvement Allowance, including (but not limited to) any costs or cost increases incurred as a result of delays (unless caused by Landlord), governmental requirements or unanticipated conditions (unless caused by Landlord), and for payment of any and all costs and expenses relating to any alterations, additions, improvements, furniture, furnishings, equipment, fixtures and personal property items which are not eligible for application of Tenant Improvement Allowance funds under the restrictions expressly set forth below in this paragraph, but Tenant shall be entitled to use or apply the entire Tenant Improvement Allowance toward the Cost of Improvements of the Tenant Improvements (subject to any applicable restrictions, conditions, limitations, reductions or charges set forth in the Lease or in this Tenant Work Letter) prior to being required to expend any of Tenant's own funds for the Tenant Improvements. The funding of the Tenant Improvement Allowance shall be made on a monthly basis or at other convenient intervals mutually approved by Landlord and Tenant and in all other respects shall be based on such commercially reasonable disbursement conditions and procedures as Landlord, Project Manager and Landlord's lender (if any) may reasonably prescribe. Notwithstanding the foregoing provisions, under no circumstances shall the Tenant Improvement Allowance or any portion thereof be used or useable by Tenant for any moving or relocation expenses of Tenant, or for any Cost of Improvement (or any other cost or expense) associated with any moveable furniture or trade fixtures, personal property or any other item or element which, under the applicable provisions of the Lease, will not become Landlord's property and remain with the Building upon expiration or termination of the Lease. Notwithstanding anything to the contrary herein, the Tenant Improvements shall not include (and Landlord shall be solely responsible for and the Tenant Improvement Allowance shall not be used for) the following: (a) costs incurred due to the presence of any Hazardous Materials in the Premises, if any; (b) costs to bring the Project into compliance with Applicable Laws to the extent required in order to allow Tenant to obtain a certificate of occupancy or its legal equivalent, for the Premises for the Permitted Use assuming a normal and customary office occupancy density; (c) construction costs in excess of the contract amount stated in the contract with the General Contractor, as approved by Tenant (not to be unreasonably withheld), except for increases set forth in change orders approved by Tenant; (d) wages, labor and overhead for overtime and premium time unless approved by Tenant (which approval shall not be unreasonably withheld, conditioned or delayed); (e) attorneys' fees incurred in connection with negotiation

of construction contracts, and attorneys' fees, experts' fees and other costs in connection with disputes with third parties; (f) interest and other costs of financing construction costs; (g) costs incurred as a consequence construction defects or default by a contractor; (h) costs as a consequence of casualties; and (i) penalties and late charges attributable to Landlord's failure to pay construction costs.

(b) **Tenant Funds**. Any additional funds required to complete the cost of the work, that are in excess of or elected by the Tenant to be used from the Tenant Improvement Allowance, shall be considered "Tenant Funds". Tenant acknowledges that an estimate of the required Tenant Funds will be determined at the time Landlord enters into the agreed upon Guaranteed Maximum Price construction contract ("**GMP**") and establishes the Project Budget. Tenant further acknowledges that such amount is an estimate and exact costs will not be known until project closeout. Tenant shall be required, on a monthly progress payment basis, to pay a percentage of each required payment to the contractor under the GMP, based on the ratio between the amount of the Tenant Funds and the total estimated cost of the work.

5. **No Agency**. Nothing contained in this Tenant Work Letter shall make or constitute Tenant as the agent of Landlord.

6. **Tenant Access**. Provided that Tenant and its agents do not interfere with Contactor's work in the Building and the Premises (including by the use of non-union vendors without prior coordination with Landlord), Contractor and Landlord shall allow Tenant access to the Premises at least thirty (30) days prior to the Substantial Completion of the Landlord's TI Work without payment of Rent for the purpose of Tenant installing equipment or fixtures (including Tenant's data and telephone equipment) in the Premises and preparing the Premises for occupancy. Prior to Tenant's entry into the Premises as permitted by the terms of this Section 6, Tenant shall submit a schedule to Landlord and Contractor, for their approval, which schedule shall detail the timing and purpose of Tenant's entry. Tenant shall hold Landlord harmless from and indemnify, protect and defend Landlord against any loss or damage to the Building or Premises and against injury to any persons caused by Tenant's actions pursuant to this Section 6.

7. **Miscellaneous**. All references in this Tenant Work Letter to a number of days shall be construed to refer to calendar days, unless otherwise specified herein. In all instances where Landlord's or Tenant's approval is required, if no written notice of disapproval is given within the applicable time period, at the end of that period Landlord or Tenant shall be deemed to have given approval (unless the provision requiring Landlord's or Tenant's approval expressly states that non-response is deemed to be a disapproval or withdrawal of the pending action or request, in which event such express statement shall be controlling over the general statement set forth in this sentence) and the next succeeding time period shall commence. If any item requiring approval is disapproved by Landlord or Tenant (as applicable) in a timely manner, the procedure for preparation of that item and approval shall be repeated. Landlord hereby acknowledges that Tenant shall not be required to restore the initial Tenant Improvements constructed in the Premises pursuant to the terms of this Tenant Work Letter upon the termination of the Lease.

8. **Time Deadlines**. Tenant shall use commercially reasonable, good faith, efforts and all due diligence to cooperate with the Architect, General Contractor and Landlord to complete all phases of the construction drawings set forth in this Tenant Work Letter and the permitting process and to receive the permits as soon as possible after the execution of the. The applicable dates for approval of items, plans and drawings as described in this Tenant Work Letter are set forth and further elaborated upon in Schedule 3 to this Exhibit B attached hereto (the "**Time Deadlines**"), attached hereto. Tenant agrees to utilize commercially reasonable efforts to comply with the Time Deadlines.

9. **Rooftop Space**. Tenant hereby acknowledges that to the extent either (i) any portion of the Tenant Improvements, or (ii) any of Tenant's equipment installed in the Premises, requires a portion of the roof to be utilized by Tenant, that Tenant shall only be permitted to utilize that certain portion of the roof as designated on Schedule 4 to this Exhibit B (the "**Rooftop Space**").

10. **Standard Tenant Improvement Package Specifications**. Tenant hereby acknowledges that the Tenant Improvements are subject to the specifications set forth on Schedule 5 to this **Exhibit B**.

SCHEDULE 1 TO EXHIBIT B

BASE BUILDING "WARM SHELL" DELIVERY CONDITION

The Cove at Oyster Point
Buildings 1 & 2
121 & 111 Oyster Point Boulevard
South San Francisco, CA 94080
Warm Shell Landlord Delivery Condition

DESCRIPTION
SITEWORK
1.Exterior hardscape and landscape, including site lighting, perimeter sidewalks, street curbs, miscellaneous site furnishings, and bio-retention basins
2.Surface parking lot and parking structure parking for allocation amongst tenants per lease agreement
3.Campus electrical vehicle charging stations for pro rata allocation amongst Tenants
4.Exterior amenities space including all hardscape and landscape, lighting, and recreational infrastructure (volleyball/basketball sport court, bocce ball, trellis)
5.Exterior bike racks
6.Bus stop wind screens for local commuter shuttle service
7.Service yard foundation, structure, covered enclosure, and waterproofing for trash containers and dedicated nitrogen storage area for allocation amongst tenants per lease agreement
8.Foundation and enclosure for Landlord provided diesel powered emergency generator
9.Loading dock with at-grade shipping/receiving area with two (2) hydraulic scissor lifts
10.Infrastructure/systems (tanks, generator, piping, etc.), as required
STRUCTURE
1.Pile supported structural slab-on-grade foundation system consisting of steel-reinforced concrete auger-cast piles, pile caps, and horizontal grade beams
2.First floor building slab to be provided AFTER Tenant Improvement design is complete
3.Steel superstructure consisting of steel columns, girders, beams, and concrete slab on composite metal deck, with live load capacity of 125 psf (reducible)

DESCRIPTION
4.Type II A construction, code required primary structural fireproofing
5.Slab edge fire safing
6.Lateral seismic system utilizing buckling-restrained braced frames. Importance factor is 1.0
7.Roof deck framing with live load capacity of 20 psf
8.Mechanical platform and roof penthouse with live load capacity of 75 psf
9.Roof screen
10.Floor to floor height of 17', all floors
11.Framed openings for Base Building utility risers
12.Stairs and stair enclosures per code requirements, including enclosure doors, handrails, and guardrails. Roof penthouse access for one (1) set of stairs
13.Window washing davit bases and arms
14.Miscellaneous metals items and/or concrete pads for Base Building equipment
15.Supplemental structural members for additional tenant loads, vibration criteria, or tenant standards, as required
16.Supplemental structural members for tenant roof equipment, including but not limited to galvanized beams on platform, grating, rails, and all associated fireproofing, as required
17.Miscellaneous metals items and/or concrete pads for Tenant equipment, as required
ROOFING
1.60 MIL single-ply thermoplastic polyolefin (TPO) white or gray roof membrane
2.Rigid insulation, flashing, and sealants
3.Roofing penetrations for Base Building equipment/systems
4.Walkway pads along roof perimeter, outside of screened area
5.Roofing penetrations for Tenant equipment/systems, as required
6.Roofing alterations due to Tenant changes, as required
EXTERIOR
1.Non load-bearing glazed aluminum curtain wall and glass fiber reinforced concrete (GFRC) panel building enclosure system
2.Building entrances and openings
COMMON AREAS

DESCRIPTION
1.Build-out of Main Lobby
2.Stair enclosures painted at all building levels
3.Two (2) B-Occupancy Chemical Storage Rooms totaling approximately 425 sf with 1-hour fire rated assembly, depressed pit (18”), and 100% outside air ventilation for allocation amongst tenants per lease agreement.
4.Main Electrical Room
5.Emergency Electrical Room
6.Domestic Pump Room
7.Fire Booster Pump Room
8.Two (2) Elevator Control Rooms
9.Telecommunications Main Point of Entry (MPOE) Room
10.Service Yard/Loading Dock Area, including space for trash enclosure, nitrogen storage, and generator enclosure
11.Usage of Amenities Space including food service, fitness center, and recreational area (located in Building 3)
ELEVATORS
1.Two (2) passenger elevators; 3,500 lbs., 350 fpm
2.One (1) freight elevator; 5,000 lbs., 200 fpm
3.Recessed elevator pits for three (3) elevators
TENANT AREAS
1.Restroom Cores: one (1) set per floor including Men’s and Women’s Restrooms with (1) ADA shower each with bench and lockers, ceramic tile floors and wet walls, solid surface countertops, floor mounted metal partitions, hard lid ceiling, down lights and ADA low-flow plumbing fixtures
2.Janitor Closet – one (1) per floor
3.Stud wall framing at restroom core to underside of slab
4.Fire-rated assembly at restroom core to 6” above ceiling
5.Electrical Room – one (1) per floor consisting of concrete floor, unfinished drywall and taped walls, no ceiling
6.Intermediate Distribution Frame (IDF) Room – one (1) per floor for floors 2-4 consisting of concrete floor, unfinished drywall and taped walls, no ceiling

DESCRIPTION
7.Accessible “Patio” – Fourth floor only. Landlord-maintained retractable davit arms stored in enclosure on Tenant patio.
8.Freight elevator lobby on floors 2-4
9.Finishes at common corridors on floors with multiple Tenants
10.Shaft enclosures for Base Building system risers
11.Modifications to core areas to accommodate Tenant requirements, if necessary
FIRE PROTECTION
1.Fire booster pump room including fire department connection, alarm valve, and fire sprinkler booster pump (connected to standby power)
2.Wet fire protection system (risers, Core area risers, distribution piping, and sprinkler heads)
3.Stair risers, distribution piping, and sprinkler heads for shell and core coverage
4.Primary distribution and sprinkler heads adequate for “Ordinary Hazard, Group 2” for core and shell coverage
5.Fire extinguisher cabinets at core areas
6.Fire safing at Base Building vertical penetrations, including penetrations for mechanical, electrical, and plumbing systems
7.Fire safing at Tenant vertical penetrations, including penetrations for mechanical, electrical, and plumbing systems, as required

PLUMBING
1.Building storm and overflow drainage system, including site underground storm sewer system and connection to storm sewer mains
2.Domestic water service with backflow prevention and Base Building risers to Tenant spaces
3.Domestic water booster pump
4.Building lab waste consisting of risers and stubs in Tenant space
5.Lab waste sewer connection to sanitary sewer, lab waste sampling port at connection
6.Building sanitary sewer service with piping distribution to restroom cores and risers stubbed in Tenant space
7.Domestic sanitary sewer connection to street
8.Main water meter and irrigation meter

9.One (1) roof mounted natural gas water heater serving all Restrooms
10.Core restroom plumbing fixtures compliant with accessibility requirements
NATURAL GAS
1.Medium pressure natural gas service to Building
2.Natural gas riser to the roof and service to Base Building boilers
3.Natural gas riser to the roof capped for future use
HEATING, VENTILATION, AIR CONDITIONING
1.Two (2) 85,000 cfm 100% outside air roof mounted air handlers serving Tenant lab spaces, allocation to Tenant space: standard 21,250 cfm per unit per floor (connected to standby power)
2.Two (2) 30,000 cfm supply/return roof mounted air handlers serving Tenant office spaces, allocation to Tenant space: standard 7,500 cfm per unit per floor
3.Two (2) 4,000 MBH input gas fired hot water boilers (connected to standby power)
4.Two (2) 385 ton centrifugal chillers
5.Two (2) 385 ton cooling towers
6.Secondary mechanical equipment, including pumps, roof ducting, piping, valves, manifolds, etc. to support Base Building mechanical systems
7.Hot water pipe risers, stubbed in Tenant space
8.Reheat coils within core areas
9.Vertical supply air duct risers
10.Vertical return air duct risers
11.Supply air duct distribution, VAV terminals, equipment connections, insulation, air terminals, dampers, hangers, etc. within core areas
12.Two (2) roof mounted dilution lab exhaust fan systems with 85,000 cfm capacity each, allocation to Tenant space: standard 21,250 cfm per system per floor (connected to standby power)
13.Exhaust air duct distribution, exhaust air valves, equipment connections, insulation, air terminals, dampers, hangers, etc. within core areas
14.Restroom exhaust for Base Building restrooms
15.Ventilation system for Base Building Electrical Room
16.Exhaust fan, side wall grille supply, and fire smoke dampers for ventilation of Base Building Electrical Rooms on each floor
17.Building Management System (BMS) for core area and Landlord infrastructure
ELECTRICAL

1.Site campus medium voltage distribution system with connection to PG&E grid
2.5,000 amp 480/277V Base Building substation with underground primary feeder to campus main switchgear
3.Standard power bus duct risers providing 400 amps per floor
4.One (1) 1500 kW 480/277V diesel standby power generator with 1,350 gallon sub-base diesel fuel tank
5.Standby power bus duct risers providing 188 kW per floor
6.Automatic transfer switch for Tenant load
7.Lighting and power distribution for core areas
8.Base Building common area life safety emergency lighting/signage
9.Distributed Antenna System (DAS) consisting of head-end system, roof-mounted antenna, and 2” conduit risers in stair shafts. No coverage within Tenant premises.
FIRE ALARM
1.Base Building fire alarm system with devices in core areas (connected to standby power)
2.Fire Alarm Termination Cabinet (FATC) within each Electrical Room
TELEPHONE/DATA
1.Underground local fiber optic & telephone conduit only to Main Point of Entry (MPOE) Room
2.Two (2) 4” conduit risers from MPOE to Intermediate Distribution Frame (IDF) Room on each floor
3.Sleeves for future conduit riser from IDF Rooms to the roof; Landlord approval required for usage
4.Campus telecommunications loop consisting of two (2) 4” conduits, linking existing and future buildings on campus
5.One (1) 4” conduit security communications loop
6.Two (2) 4” conduits connecting Building 1 MPOE Room with Building 2 MPOE Room
SECURITY
1.Card access at Building entries
2.Video surveillance and intercom system at entrance and receiving doors of the Building
3.Main Lobby desk for future security operations. Security guard scope TBD

SCHEDULE 2 TO EXHIBIT B

LEED REQUIREMENTS

The following is a list of LEED prerequisites and credits that all tenants are required to meet compliance for their associated tenant-occupied spaces beyond the current Core & Shell project scope. By signing this lease, tenants are agreeing to comply with all of the outlined requirements.

-Water Efficiency Prerequisite 1 and Credit 3, Water Use Reduction

- All toilets in the core or those that are tenant-installed shall be dual-flush toilets or "high-efficiency," using 1.28 gallons per flush (gpf) or less.
- All urinals shall be waterless or ultra low-flow e.g., 0.125gpf or less.
- Bathroom faucets are required to have flow restrictors limiting flow to .5 gallons per minute (gpm). Kitchen and breakroom faucets to allow 2.0 gpm.

- Energy and Atmosphere Prerequisite 2, Minimum Energy Performance, and Credit 1, Optimize Energy Performance

- Envelope must meet the following requirements:
  - Walls: U = 0.082
  - Roof: U = 0.039
  - Curtain Glazing: U = 0.27, SHGC = 0.29 (Viracon)
- Mechanical (Based on B3) systems must comply with the following:
  - Chiller Efficiency: 0.549 kw/ton
  - Boiler Efficiency: 93%
- Plumbing (Based on B3) must comply with the following:
  - Water heater efficiency: 96%
- Lighting requirements are as follows:
  - Office Spaces > 250 ft^2: 0.75 w/sf
  - Office Spaces <= 250 ft^2: 1.0 w/sf
  - Lab Spaces: 1.4 w/sf

-Energy and Atmosphere Credit 4, Enhanced Refrigerant Management

- Tenants should specify HVAC systems that minimize refrigerant impact by avoiding refrigerants entirely or using systems that reduce their harmful impacts.
- Tenants should not install or retain fire suppression systems with CFCs, HCFCs, or halons.

-Energy and Atmosphere Credit 5, Measurement & Verification

- Tenants will be required to submeter

-Indoor Environmental Quality Prerequisite 1, Minimum Indoor Air Quality (IAQ) Performance

- Tenant-installed mechanical ventilation systems must meet the requirements of ASHRAE 62.1-2007 sections 4-7.

-Indoor Environmental Quality Credit 1, Outdoor Air Delivery Monitoring

- For mechanical ventilation systems that predominantly serve densely occupied spaces (those with a design occupant density greater than or equal to 25 people per 1000 sq. ft), tenants shall install a CO2 sensor within each densely occupied space.
- For all other mechanical ventilation systems, provide an outdoor airflow measurement device capable of measuring the minimum outdoor airflow rate at all expected system operating conditions within 15 percent of the design minimum outdoor air rate.

-Indoor Environmental Quality Credit 5, Indoor Chemical and Pollutant Source Control

- Walk off mats are installed at all building main entrances as part of the core and shell scope.

- All rooms that contain chemicals or pollutants (such as copy rooms, photo labs, laundry, and janitorial rooms) must be built with deck-to-deck full-height walls and self-closing doors, separate ventilation systems with minimum .50 cfm/sqft exhaust fans, and containment drains for appropriate disposal of hazardous liquids
- Tenants must also install MERV – 13 filters for all return and outside air intakes in regularly occupied mechanically ventilated spaces

-Indoor Environmental Quality Credit 6, Controllability of Systems - Thermal Comfort

- Tenants shall provide thermal and ventilation controls for:
    - At least 50 percent of the occupants that enable adjustment to suit individual needs and preferences & all shared multi-occupant spaces where transient groups must share controls.

-Indoor Environmental Quality Credit 7, Thermal Comfort - Design

- HVAC design must meet requirements of ASHRAE 55-2004, specifically in reference to air temperature, radiant temperature, humidity, and air speed

SCHEDULE 3 TO EXHIBIT B

STANDARD TENANT IMPROVEMENT PACKAGE SPECIFICATIONS

[[ATTACHED]]

SCHEDULE 4 TO EXHIBIT B

DESIGNATED ROOF ZONES

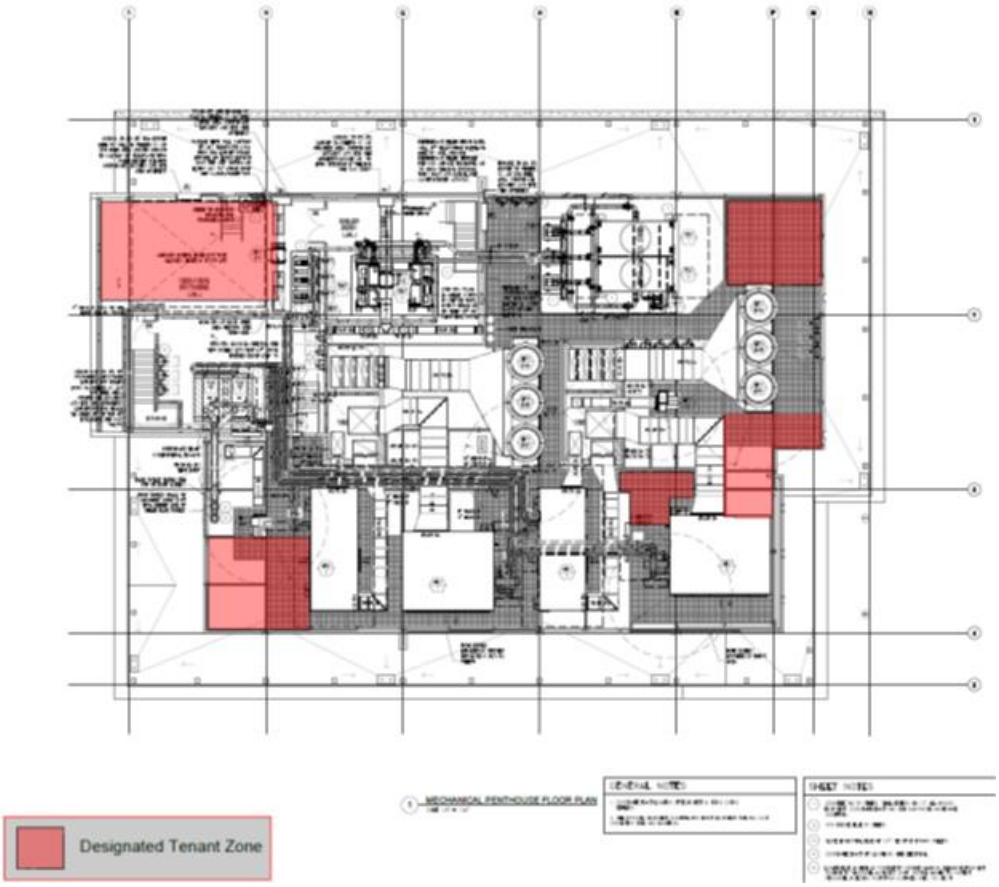

EXHIBIT C

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 Rent 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 number of rentable/usable square feet within the Premises is approximately _____ square feet.

6. Tenant's Share of the Building is 100%, subject to Section 6 of the Summary of Basic Lease Information.

"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 a portion of the 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 , provided that Tenant has been informed of the identify of Landlord's mortgagee as provided in the Lease.

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.

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 compliance with all federal, state and local laws, ordinances, rules and regulations affecting its use of the Premises, including those laws, ordinances, rules or regulations relating to hazardous or toxic materials. Tenant has never knowingly 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 actual 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. To Tenant's actual knowledge, 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 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.

☐ Explosives	☐ Fuels	☐ Oils
☐ Solvents	☐ Oxidizers	☐ Organics/Inorganics
☐ Acids	☐ Bases	☐ Pesticides
☐ Gases	☐ PCBs	☐ Radioactive Materials
☐ Other (please specify)		

22. 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.

Material	Physical State (Solid, Liquid, or Gas)	Usage	Container Size	Number of Containers	Total Quantity

23. 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?

☐ Hazardous wastes ☐ Industrial Wastewater
☐ Waste oils ☐ PCBs
☐ Air emissions ☐ Sludges
☐ Regulated Wastes ☐ Other (please specify)

32. List and quantify the materials identified in Question 3-1 of this section.

WASTE GENERATED	RCRA listed Waste?	SOURCE	APPROXIMATE MONTHLY QUANTITY	WASTE CHARACTERIZATION	DISPOSITION

33. Please include name, location, and permit number (e.g. EPA ID No.) for transporter and disposal facility, if applicable). Attach separate pages as necessary.

Transporter/Disposal Facility Name	Facility Location	Transporter (I) or Disposal (D) Facility	Permit Number

34. Are pollution controls or monitoring employed in the process to prevent or minimize the release of wastes into the environment?Yes☐ No ☐

35. 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.

Capacity	Contents	Year Installed	Type (Steel, Fiberglass, etc)	Associated Leak Detection / Spill Prevention Measures*

*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

42. Please provide copies of written tank integrity test results and/or monitoring documentation, if available.

43. Is the UST/AST registered and permitted with the appropriate regulatory agencies?Yes☐ No ☐
If so, please attach a copy of the required permits.

44. 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.

45. 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.).

46. 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

61. 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.

62. Has a Hazardous Materials Business Plan been developed for the site?Yes☐ No ☐
If so, please attach a copy.

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 F

TENANT'S PROPERTY

The following items, to the extent (i) not purchased with the Tenant Improvement Allowance or Additional Improvement Allowance, and (ii) not tied into the Base Building systems, 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.

5. Portable fume hoods.

6. Biosafety cabinets.

7. Glass Washes.

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William J. Newell certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2020

/s/ William J. Newell
William J. Newell
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Edward C. Albini, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2020

/s/ Edward C. Albini
Edward C. Albini
Chief Financial Officer
(Principal Accounting Officer and Principal Financial Officer)

Exhibit 32.1

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

I, William J. Newell, Chief Executive Officer of Sutro Biopharma, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 4, 2020

/s/ William J. Newell
William J. Newell
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

I, Edward C. Albini, Chief Financial Officer of Sutro Biopharma, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 4, 2020

/s/ Edward C. Albini
Edward C. Albini
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)