

ENDOCYTE INC  
Form S-1  
July 14, 2011

As filed with the Securities and Exchange Commission on July 14, 2011

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form S-1**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

**ENDOCYTE, INC.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**2834**  
*(Primary Standard Industrial  
Classification Code Number)*  
**3000 Kent Avenue, Suite A1-100**

**35-1969-140**  
*(I.R.S. Employer  
Identification Number)*

**West Lafayette, IN 47906**

**(765) 463-7175**

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

**P. Ron Ellis**

**President and Chief Executive Officer**

**3000 Kent Avenue, Suite A1-100**

**West Lafayette, IN 47906**

**(765) 463-7175**

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

**Copies to:**

Edgar Filing: ENDOCYTE INC - Form S-1

David C. Worrell, Esq.

Daniel L. Boeglin, Esq.

Baker & Daniels LLP

600 East 96<sup>th</sup> Street, Suite 600

Indianapolis, IN 46240

(317) 569-9600

Bruce K. Dallas, Esq.  
 Davis Polk & Wardwell LLP  
 1600 El Camino Real  
 Menlo Park, CA 94025  
 (650) 752-2000

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

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

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

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

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

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

Large accelerated filer " Accelerated filer " Non-accelerated filer  Smaller reporting company "

(Do not check if a smaller reporting company)

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum	
			Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Common Stock, \$0.001 par value per share	5,567,851	\$14.01	\$78,005,593	\$9,056.45

- (1) Includes 726,241 shares of common stock that the underwriters have the option to purchase to cover over-allotments, if any.
- (2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, on the basis of the average of the high and low prices of Endocyte s, Inc. s common stock as reported by The NASDAQ Global Market on July 12, 2011.
- (3) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price.

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

**The information contained in this prospectus is not complete and may be changed. Neither we nor the Selling Stockholder may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the Selling Stockholder are soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.**

**Subject to Completion, dated July 14, 2011**

**PRELIMINARY PROSPECTUS**

**4,841,610 Shares**

**Common Stock**

We are offering 4,000,000 shares of our common stock and the Selling Stockholder identified in this prospectus is offering an additional 841,610 shares of common stock. We will not receive any of the proceeds from the sale of the shares being sold by the Selling Stockholder.

Our common stock is listed on The NASDAQ Global Market under the symbol **ECYT**. The closing price of our common stock on July 13, 2011 was \$14.00 per share.

**This investment involves risk. See Risk Factors beginning on page 13.**

	<b>Per Share</b>	<b>Total</b>
Public Offering Price	\$	\$
Underwriting Discount and Commissions	\$	\$
Proceeds, Before Expenses, to Us.	\$	\$
Proceeds, Before Expenses, to the Selling Stockholder	\$	\$

The underwriters may also purchase up to an additional 726,241 shares from us, at the public offering price, less the underwriting discounts and commissions, within 30 days of the date of this prospectus to cover over-allotments, if any. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be \$ and total proceeds to us, before expenses, will be \$ .

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

The shares of common stock will be ready for delivery on or about , 2011.

**RBC CAPITAL MARKETS**

**LEERINK SWANN**

**COWEN AND COMPANY**

**WEDBUSH PACGROW LIFE SCIENCES**

The date of this prospectus is , 2011



---

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	2
<u>The Offering</u>	10
<u>Summary Financial Data</u>	11
<u>Risk Factors</u>	13
<u>Information Regarding Forward-Looking Statements</u>	37
<u>Use of Proceeds</u>	39
<u>Dividend Policy</u>	40
<u>Capitalization</u>	41
<u>Dilution</u>	42
<u>Market Price of Common Stock</u>	43
<u>Selected Financial Data</u>	44
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	46
<u>Business</u>	60
	<b>Page</b>
<u>Management</u>	96
<u>Principal Stockholders and Selling Stockholder</u>	100
<u>Certain Relationships and Related Party Transactions</u>	104
<u>Description of Capital Stock</u>	107
<u>Shares Eligible For Future Sale</u>	111
<u>Material U.S. Federal Income Tax and Estate Tax Consequences to Non-U.S. Holders</u>	113
<u>Underwriting</u>	117
<u>Legal Matters</u>	122
<u>Experts</u>	122
<u>Where You Can Find More Information</u>	122
<u>Incorporation of Certain Documents by Reference</u>	123
<u>Index to Financial Statements</u>	F-1

Neither we, the Selling Stockholder nor the underwriters have authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. Neither we, the Selling Stockholder nor the underwriters take responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in or incorporated by reference in this prospectus is current only as of its date, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

For investors outside the United States: Neither we, the Selling Stockholder nor the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

---

## PROSPECTUS SUMMARY

*This summary highlights information contained in greater detail elsewhere in this prospectus. This summary may not contain all the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including Risk Factors beginning on page 13 and our financial statements and related notes appearing at the end of this prospectus, before making an investment decision. Unless otherwise indicated, the terms Endocyte, we, us and our refer to Endocyte, Inc., a Delaware corporation.*

### Our Company

We are a biopharmaceutical company developing targeted therapies for the treatment of cancer and inflammatory diseases. We use our proprietary technology to create novel small molecule drug conjugates, or SMDCs, and companion imaging diagnostics. Our SMDCs actively target receptors that are over-expressed on diseased cells, relative to healthy cells. This targeted approach is designed to enable the treatment of patients with highly active drugs at greater doses, delivered more frequently, and over longer periods of time than would be possible with the untargeted drug alone. We are also developing companion imaging diagnostics for each of our SMDCs that are designed to identify the patients whose disease over-expresses the target of the therapy and who are therefore more likely to benefit from treatment. This combination of an SMDC with its companion imaging diagnostic is designed to personalize the treatment of patients by delivering effective therapy, selectively to diseased cells, in the patients most likely to benefit.

Our lead SMDC, EC145, targets the folate receptor, which is frequently over-expressed in some of the most prevalent, and difficult to treat solid tumor indications, including ovarian, non-small cell lung, breast, colorectal, kidney, endometrial and other cancers. We identify the presence of the folate receptor in cancer patients by using EC20, our proprietary companion imaging diagnostic for EC145. We have chosen platinum-resistant ovarian cancer, or PROC, a highly treatment-resistant disease, as our lead indication for development of EC145 because of the high unmet need in treating this patient population and the high percentage of ovarian cancer patients whose tumors over-express the targeted folate receptor. In the final progression free survival, or PFS, analysis of PRECEDENT, our randomized phase 2 clinical trial in women with PROC, EC145 increased PFS from a median of 11.7 weeks to a median of 21.7 weeks, representing an 85 percent improvement over standard therapy ( $p=0.031$ ). The  $p$  represents p-value, which is the probability that the difference observed between the treatment arm and the control arm is due to chance, in this case 3.1 percent. We studied a subset of patients in which 100 percent of their target lesions over-expressed the folate receptor as determined by an EC20 scan, which patients we refer to as EC20(++). We treated these EC20(++) patients with a combination of EC145 and pegylated liposomal doxorubicin, or PLD, and observed a median PFS of 24.0 weeks compared to a median of 6.6 weeks for patients receiving PLD alone, an improvement of over 260 percent. The hazard ratio was 0.381 ( $p=0.018$ ), or a reduction in the risk of progression of 61.9 percent. Based on these data we plan to file an application for conditional marketing authorization with the European Medicines Agency, or EMA, for EC145 in patients with PROC in the first quarter of 2012.

We began enrolling patients in PROCEED, our phase 3 registration trial for EC145 and EC20, in May 2011. PROCEED is a randomized, double-blinded trial of EC145 in combination with PLD compared to PLD plus placebo. The patient population, those with PROC, is the same as in the PRECEDENT trial, and the primary endpoint is PFS in patients selected by EC20 as folate receptor positive. The trial is statistically powered for overall survival, or OS, as a secondary endpoint with projected enrollment of approximately 500 folate receptor positive patients. The trial will be conducted in approximately 150 sites in the United States, Canada, and Europe. We expect final primary PFS data from this study in the second quarter of 2013.

We are also developing EC145 for use in non-small cell lung cancer, or NSCLC, where we have completed a phase 2 single-arm clinical trial in heavily pre-treated patients and observed a disease control rate, or DCR, of 57 percent at the eight week assessment in patients whose target tumors were all identified as over-expressing the folate receptor. This compares to historical DCRs ranging from 21 to 30 percent reported in other trials of approved therapies in less heavily pre-treated patients. In a subset of EC20(++) patients who had received three or fewer prior therapies, the DCR was 70 percent. We also evaluated OS in EC20(++) patients (n=14) compared to patients in which at least one of the target lesions, but not all, over-expressed the folate receptor, which patients we refer to as EC20(+) (n=14). Median OS improved from 14.9 weeks for EC20(+) patients to 47.2 weeks for EC20(++) patients. The hazard ratio was 0.539, meaning EC20(++) patients were 46.1 percent less likely to die when compared to EC20(+) patients when receiving EC145 (p=0.101). We plan to begin enrollment in a randomized phase 2 trial of EC145 in patients with second line NSCLC in the first quarter of 2012.

## Recent Developments

### *European Regulatory Filing*

During the second quarter of 2011, we announced our plan to file applications with the EMA for conditional marketing authorization for our lead drug candidate EC145 for the treatment of PROC and its companion imaging diagnostic EC20 for patient selection. The filings will be based on the results of the randomized phase 2 PRECEDENT trial and supported by a phase 2 single agent EC145 clinical trial. This plan was based on consultation with the EMA, including a meeting with the Scientific Advice Working Party and written advice from the Committee for Medicinal Products for Human Use, or CHMP. We plan to seek conditional marketing authorization for treatment of patients with folate receptor positive PROC as selected by EC20. We expect to file both applications in the first quarter of 2012.

In addition to data already available from the phase 2 trials, we plan on including additional analyses of the PRECEDENT trial which have not yet been completed. These include, but may not be limited to, the following:

EC20 validation: We will conduct an inter-reader analysis that will determine the reliability of EC20. Two independent radiologists will read images from the PRECEDENT study and we will measure the agreement between the two readers. This will provide evidence supporting the reliability of the EC20 scan process to consistently classify patients.

Blinded assessment of CT scans: Results from the PRECEDENT trial published to date have been based on analyses of CT scans by investigators who were not blinded to the treatment arm or EC20 scan status. In connection with the EMA applications, radiologists blinded to the patients' EC20 scan results and their treatment arm will perform an independent assessment of the CT scans used to measure progression of disease in the PRECEDENT trial.

Overall survival: We will include the final OS analysis from the PRECEDENT trial.

### *Initiation of Phase 3 PROCEED Trial of EC145 and EC20 in Patients with PROC*

In May 2011, we began enrolling patients in our PROCEED phase 3 registration trial of EC145 for the treatment of women with PROC. PROCEED shares the same fundamental design characteristics of the PRECEDENT trial, except that it is a double-blinded trial, it measures PFS based on radiological progression alone without including clinical progression, and it will be powered for an OS analysis with planned enrollment of approximately 500 folate receptor positive patients. As part of the EC20 validation



process, we will also enroll a modest number of folate receptor negative patients, but these patients will not be included in the primary efficacy analysis. The primary endpoint, 2 to 1 randomization, dose and schedule are the same as those used in the PRECEDENT trial. In contrast to PRECEDENT, the PLD control arm in PROCEED will include a placebo in order to blind the study, which will be dosed on the same schedule as EC145. As was the case with the PRECEDENT trial, PROCEED's primary endpoint is PFS. The companion imaging diagnostic EC20 will be utilized to select patients whose cancer over-expresses the folate receptor. EC20(-) patients will be excluded from the primary endpoint analysis. Final primary PFS data is expected to be available in the second quarter of 2013.

#### ***Planned Phase 2 Trial of EC145 and EC20 in Patients with NSCLC***

Based on results of our single-arm, single agent phase 2 clinical trial of EC145 in patients with heavily pre-treated NSCLC, we plan to initiate a randomized phase 2 trial in the first quarter of 2012. The trial is currently designed to enroll up to 200 patients with adenocarcinoma of the lung who have failed one prior line of therapy. Patients will be selected based on EC20 scan results and only EC20(++) patients will be included. The trial design is intended to evaluate the safety and efficacy of EC145 in second line NSCLC as a single agent and in combination with docetaxel, an U.S. Food and Drug Administration, or FDA, approved and commonly used second line chemotherapy. The study will have three arms: docetaxel alone; EC145 alone; and EC145 plus docetaxel. The details of the trial design and statistical plan are still in development and subject to revision. The primary outcome measure will be PFS with secondary measures of OS, tumor response and duration of response. Final PFS data is expected to be available by the third quarter of 2013.

#### ***Select Updated Financial Results***

Our cash, cash equivalents and short-term investment balance was \$83.9 million as of June 30, 2011. This reflects a net use of cash in the second quarter of 2011 of \$10.5 million. The net loss for the second quarter of 2011 is expected to exceed the net loss of \$7.2 million reported in the first quarter of 2011. This is primarily the result of increased spending associated with the initiation of our PROCEED clinical trial.

#### **Technology Platform and Product Pipeline**

Our technology platform has enabled us to develop multiple new SMDCs and companion imaging diagnostics for a range of disease indications, with an initial focus on oncology and inflammatory diseases. Our SMDCs are comprised of three modules: a targeting ligand, a linker and a drug payload. The foundation of our technology is our high-affinity small molecule targeting ligands, which bind to over-expressed receptors on target cells, while largely avoiding healthy cells. We are developing a number of different targeting ligands to address a broad range of cancers and inflammatory diseases. Our linker system attaches the targeting ligand to the drug payload. It is designed to be stable in the bloodstream, but to release the active drug from the targeting ligand when the SMDC is taken up by the diseased cell. The drug payload is the biologically active component of our SMDCs. The majority of our drug payloads are highly active molecules that are too toxic to be administered in their untargeted forms at therapeutic dose levels. To create our companion imaging diagnostics, we replace the drug payload of the SMDC with an imaging agent that is easily seen with widely available nuclear imaging equipment.

Below is a table listing our current SMDCs and companion imaging diagnostics.

***Lead SMDC Candidate (EC145) and Advanced Clinical Trials***

Our lead SMDC candidate, EC145, consists of a highly cytotoxic anti-cancer drug, DAVLBH, joined by a linker system to the targeting ligand, folate. DAVLBH is a member of a class of proven anti-cancer drugs that destabilize microtubules within the cell, leading to cell death. As folate is required for cell division, many rapidly dividing cancer cell types have been found to over-express high-affinity folate receptors. These folate receptors on cancer cells bind with high-affinity to EC145 and bring it inside the cell through a process known as endocytosis. Once EC145 is inside the cell, the linker system is cleaved, releasing the active drug payload within the cancer cell.

We have completed final PFS analysis for PRECEDENT, our randomized phase 2 clinical trial of EC145 in 149 women with PROC. PRECEDENT is a randomized controlled trial in which patients received EC145 in combination with PLD versus PLD alone, which is a current standard of care. The primary endpoint of the trial is PFS. Historically, PROC has proven difficult to treat, and no approved therapy has extended either PFS or OS in a randomized trial.

In the final PRECEDENT PFS analysis of 149 patients and 95 PFS events, the combination therapy with EC145 and PLD increased median PFS by 85 percent over therapy with PLD alone. Median PFS increased from a median of 11.7 weeks in the PLD arm to a median of 21.7 weeks in the EC145 and PLD combination therapy arm ( $p=0.031$ ). The hazard ratio was 0.626, meaning patients receiving EC145 were 37.4 percent less likely to have died or have their cancer progress compared to patients receiving only PLD. The graph below compares PFS in patients receiving EC145 and PLD versus PLD alone. This observed improvement in median PFS was provided in the context of low additional toxicity over PLD. In addition,

this analysis suggests an early positive trend in OS with 81 percent of patients treated with EC145 and PLD alive at six months versus 72 percent of patients alive at six months when treated with PLD alone. The OS data set has a 66 percent censoring rate, includes only 50 events and is not considered mature. We currently expect that we will receive final OS data from the PRECEDENT trial by the first quarter of 2012.

The predictive power of our EC20 companion imaging diagnostic was also evaluated in the PRECEDENT trial. In an analysis of EC20(++) patients, an increased improvement in PFS was observed. In this subgroup of 38 patients having a greater over-expression of the folate receptor, PFS improved from a median of 6.6 weeks for patients receiving PLD alone to a median of 24.0 weeks for patients receiving the combination of EC145 and PLD, an improvement of over 260 percent. The hazard ratio was 0.381 ( $p=0.018$ ), or a reduction in the risk of progression of 61.9 percent.

We are currently enrolling patients in PROCEED, our phase 3 registration trial of EC145 for the treatment of women with PROC. PROCEED shares the same fundamental design characteristics of the PRECEDENT trial, except that it is a double-blinded trial, it measures PFS based on radiological progression alone without including clinical progression, and it is powered for an OS analysis with a planned enrollment of approximately 500 folate receptor positive patients. As part of the EC20 validation process, we will also enroll a modest number of folate receptor negative patients, but these patients will not be included in the primary efficacy analysis. The primary endpoint, 2 to 1 randomization, dose and schedule are the same as those used in the PRECEDENT trial. As was the case with the PRECEDENT trial, PROCEED's primary endpoint is PFS. We are excluding EC20(-) patients, resulting in a population of EC20(+) and EC20(++) patients. Based on data we collected in the PRECEDENT trial, and the EC145 mechanism of action, we believe that these patients are not expected to benefit from treatment with EC145. PROCEED also includes a co-primary PFS endpoint for EC145 for EC20(++) patients. EC20(+) patients are those patients who have some, but not all, of their target lesions over-express the folate receptor as determined by an EC20 scan. If PROCEED meets either primary endpoint, we intend to file a new drug application, or NDA, with the FDA for use of EC145 in combination with PLD in EC20(+) and EC20(++) patients with PROC or in EC20(++) patients with PROC. The FDA has stated that PROCEED must provide evidence of persuasive and robust statistically significant clinical benefit. If we fail to demonstrate a benefit of this magnitude, we expect that the FDA would require us to conduct a second phase 3 clinical trial in order to file an NDA and receive marketing approval of EC145 for the treatment of PROC. In addition, the results of PROCEED may not yield safety and efficacy results sufficient to be approved by the FDA for commercial sale.

Our second indication for EC145 is second line NSCLC. Lung cancer is the leading cause of cancer-related death worldwide and an area of high unmet medical need. Although several therapies are commercially available for the treatment of first and second line NSCLC, ultimately, in most patients the therapy fails and their cancer grows. In our clinical trials that incorporated EC20, approximately 80 percent of NSCLC tumors over-express the folate receptor. As a result, we believe NSCLC is also an attractive indication for EC145 development. In a phase 2 single-arm trial in NSCLC patients who had at least one tumor that over-expressed the folate receptor, EC145 met the primary endpoint by demonstrating clinical benefit, as well as improved median PFS and OS in EC20(++) patients. We plan to initiate a randomized, placebo controlled phase 2 clinical trial in second line NSCLC in up to 200 patients during the first quarter of 2012.

### *EC20 and Companion Imaging Diagnostics*

We believe the future of medicine includes not only safer and more effective drugs, but also the ability to identify the appropriate therapy for a particular patient. We are committed to this approach, which is commonly referred to as personalized medicine or predictive medicine.

To create a companion imaging diagnostic targeting the same diseased cells as the SMDC, we replace the drug payload with a radioisotope imaging agent. The companion imaging diagnostic allows for real-time, full-body assessment of the receptor target without requiring an invasive tissue biopsy.

Using full-body imaging, the receptor expression can be measured in every tumor and monitored throughout treatment. EC20 is the companion imaging diagnostic for all of our SMDCs that target the folate receptor. EC20 is a conjugate of the targeting ligand, folate, and the radioisotope imaging agent, technetium-99m. Following intravenous administration, EC20 rapidly binds to tumors that over-express the folate receptor, allowing the treating physician to distinguish between patients who are folate receptor positive or folate receptor negative within one to two hours following its administration. In our phase 2 single-arm clinical trials and the randomized phase 2 PRECEDENT trial with EC145, we have seen correlations between favorable therapeutic outcomes and uptake of our companion imaging diagnostic, which we believe supports this approach. We are utilizing EC20 as part of our phase 3 clinical trial for EC145, PROCEED, and intend to use the data from this trial to file an NDA with the FDA for the approval of EC20 for use in women with PROC.

#### ***Other Pipeline Programs***

We are developing a number of other SMDCs and companion imaging diagnostics which leverage our modular platform technology. For example, EC0489 utilizes an alternative linker system to alter the biodistribution of the drug, which may allow for higher dosage of drug payload than that found in EC145. EC0225 utilizes two distinct and highly active drugs, DAVLBH and mitomycin-C. These two drugs are attached to a single targeting ligand and are delivered simultaneously to cancer cells, which may increase the overall anti-cancer activity of the SMDC. In EC17, we incorporate hapten as the drug payload, which can elicit an immunologic response from the host immune system in order to facilitate tumor-cell killing. In EC0652, we replace the folate receptor ligand with a ligand that binds to prostate specific membrane antigen, or PSMA.

Beyond cancer, we have discovered that activated macrophages, a type of white blood cell found at sites of acute and chronic inflammation, also over-express the folate receptor. Activated macrophages release a variety of mediators of inflammation that contribute to a broad range of diseases, such as rheumatoid arthritis, osteoarthritis, inflammatory bowel disease and psoriasis. We have a number of SMDCs in preclinical development for autoimmune disease that are designed to inhibit the production of pro-inflammatory cytokines by activated macrophages. In preclinical models of rheumatoid arthritis, our SMDCs targeted to activated macrophages result in significant reduction in inflammation and prevention of bone destruction that often accompanies these diseases. For example, EC0746 is an SMDC constructed with the targeting ligand, folate, and an inhibitor of cellular metabolism, called aminopterin. In preclinical models, we observed that EC0746 was safe and reduced inflammation more than the most commonly prescribed anti-inflammatory agent, methotrexate, and the anti-TNF-alpha agent, etanercept.

#### **Our Strategy**

Our strategy is to develop and commercialize SMDCs to treat patients who suffer from a variety of cancers and inflammatory diseases that are not well addressed by currently available therapies. The critical elements of our business strategy are to:

obtain marketing approval of our lead SMDC, EC145, for treatment of women with PROC;

expand the use of EC145 to other cancers, including NSCLC;

build a pipeline of SMDCs by leveraging our technology platform;

develop companion imaging diagnostics for each of our therapies; and

build commercial capabilities and partner to maximize the value of our SMDCs.

***Patents and Proprietary Rights***

We own or have rights to 64 issued patents and 182 patent applications worldwide covering our core technology, SMDCs and companion imaging diagnostics. Our U.S. patent covering our core technology and our lead SMDC, EC145, expires in 2026, and our U.S. patent covering the EC145 companion imaging diagnostic, EC20, expires in 2024. We entered into exclusive, worldwide licenses that currently encompass 31 issued patents and 71 patent applications for select folate-targeted technology and for select technology related to PSMA owned by Purdue Research Foundation, a non-profit organization which manages the intellectual property of Purdue University. These exclusive, worldwide license agreements expire on the expiration date of the last to expire of the patents licensed thereunder, including those that are issued on patents currently pending and on matters not yet filed. Purdue Research Foundation may terminate the licenses for material default by us, in the event we fail to meet public demand for approved products or upon our bankruptcy. We have royalty obligations to Purdue Research Foundation based on sales of products that are designed, developed or tested using the licensed technology as well as annual minimum royalty obligations.

**Risks Associated With Our Business**

Our business is subject to a number of risks of which you should be aware before making an investment decision. These risks are discussed more fully under the heading the Risk Factors beginning on page 13, and include but are not limited to the following:

We currently have no commercial products and we have not received regulatory approval for, nor have we generated commercial revenue from, any of our product candidates. As a result, it is difficult to predict our future commercial success and the viability of any of our product candidates.

We are dependent on the success of our lead drug candidate, EC145, which has completed phase 2 clinical development in PROC. Recent PRECEDENT results may not be predictive of the results of our phase 3 clinical trial, and as a result, may not be sufficient for approval of EC145. Furthermore, EC145 may not be approved even if we achieve the primary endpoints of our phase 3 clinical trial.

We have never been profitable and have incurred net operating losses since our inception. Our net loss for the years ended December 31, 2008, 2009, and 2010, and for the three months ended March 31, 2010 and 2011 was \$18.5 million, \$17.0 million, \$20.1 million, \$5.6 million and \$7.2 million, respectively. As of March 31, 2011, we had a retained deficit of \$105.3 million. We anticipate that our operating losses will increase over the next several years.

We will need to raise substantial additional funds to achieve our goals. A failure to raise such additional funds may require us to delay, limit, reduce or terminate current or planned activities.

We expect that any product candidate that we commercialize will compete with existing, market-leading products and those that are currently in development. For example, even if EC145 is approved by the FDA for the treatment of PROC, it may compete with current therapies or other products in late-stage development, which may prove to be safer and more effective.

We currently have no marketing, sales or distribution capabilities. If our product candidates receive regulatory approval, we intend to establish our sales and marketing organization with technical expertise and supporting distribution capabilities to commercialize our product candidates, which will be expensive and time consuming. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of these products.

If we do not establish development or commercialization collaborations, we may have to alter our development and marketing plans. As we progress with the clinical development of our SMDCs, we may seek to collaborate with select pharmaceutical and biotechnology companies to assist us in furthering development and potential commercialization of some of our product candidates in the United States or internationally. If we are unable to negotiate collaborations on acceptable terms, we may need to curtail the development of a product candidate, reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense.

Our inability to obtain adequate patent protection for our product candidates or technology platform or failure to successfully defend against any third-party infringement claims could also adversely affect our business.

We are subject to risks associated with the availability of key raw materials and drugs used in our clinical trials.

#### **Our Corporate Information**

We were incorporated in the State of Indiana in 1995, and we were reincorporated in the State of Delaware in 2001. Our principal executive offices are located at 3000 Kent Avenue, Suite A1-100, West Lafayette, Indiana 47906, and our telephone number is (765) 463-7175. Our website address is [www.endocyte.com](http://www.endocyte.com). Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website as part of this prospectus or in deciding whether to purchase shares of our common stock.

The name Endocyte and our logo are our trademarks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

---

## THE OFFERING

Common stock offered by us	4,000,000 shares (or 4,726,241 shares if the underwriters exercise their over-allotment in full)
Common stock offered by the Selling Stockholder	841,610 shares
Common stock to be outstanding after this offering	33,724,837 shares

Use of proceeds

We estimate that the net proceeds from this offering to us will be approximately \$ million, or approximately \$ million if the underwriters exercise their over-allotment option in full, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We expect to use substantially all of the net proceeds from this offering through the third quarter of 2013, to prepare EMA regulatory filings for conditional marketing authorization for EC145 and EC20 and pre-commercial activities in Europe, to initiate the randomized phase 2 study of EC145 and EC20 in NSCLC, to advance our other earlier stage phase 1 and preclinical pipeline and for working capital and other general corporate purposes. See Use of Proceeds for a more complete description of the intended use of proceeds from this transaction.

We will not receive any proceeds from the sale of shares by the Selling Stockholder.

Risk factors

You should read the Risk Factors section of this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.

NASDAQ Global Market symbol

ECYT

The number of shares of our common stock to be outstanding following this offering is based on 29,724,837 shares of our common stock outstanding as of June 30, 2011, which excludes:

133,968 shares of common stock issuable upon exercise of warrants outstanding as of June 30, 2011 at an exercise price of \$8.12 per share;

2,812,872 shares of common stock issuable upon the exercise of stock options outstanding as of June 30, 2011 at a weighted average exercise price of \$4.85 per share;

264,012 shares issuable for performance-conditioned restricted stock units outstanding as of June 30, 2011; and

352,395 shares of common stock reserved for issuance under the 2010 Equity Incentive Plan as of June 30, 2011 and any future increase in shares reserved for issuance under such plan.

Unless otherwise noted, the information in this prospectus reflects and assumes no exercise by the underwriters of their over-allotment option.





## SUMMARY FINANCIAL DATA

The following summary financial data should be read in conjunction with Capitalization, Selected Financial Data, and Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes appearing at the end of this prospectus.

We have derived the summary statement of operations data for the year ended December 31, 2008, 2009 and 2010, from our audited financial statements included in this prospectus. We have derived the summary statement of operations data for the three months ended March 31, 2010 and 2011, and the summary balance sheet data as of March 31, 2011, from our unaudited financial statements included in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future.

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
(Unaudited)					
(In Thousands, Except Share and Per Share Amounts)					
<b>Revenue:</b>					
Total revenue	\$ 500	\$ 3,000	\$	\$	\$
<b>Operating expenses:</b>					
Research and development	13,323	14,804	14,561	3,899	4,439
General and administrative	4,786	3,934	6,039	1,476	2,074
Total operating expenses	18,109	18,738	20,600	5,375	6,513
<b>Loss from operations</b>	(17,609)	(15,738)	(20,600)	(5,375)	(6,513)
<b>Other income (expense):</b>					
Interest income	682	49	8	3	19
Interest expense	(1,579)	(1,436)	(1,065)	(249)	(698)
Other income (expense)	13	119	1,564	12	3
Total other income (expense)	(884)	(1,268)	507	(234)	(676)
<b>Net loss</b>	\$ (18,493)	\$ (17,006)	\$ (20,093)	\$ (5,609)	\$ (7,189)
Basic and diluted loss per share(1)	\$ (20.54)	\$ (18.67)	\$ (21.77)	\$ (6.16)	\$ (0.43)
Shares used in computation of basic and diluted loss per share	900,127	911,066	923,007	911,066	16,907,823

	As of March 31, 2011	
	Actual	As Adjusted(1)
(In Thousands, Unaudited)		
Cash, cash equivalents and short-term investments	\$ 94,447	\$
Working capital	86,343	
Total assets	97,151	
Total debt	14,836	
Total stockholders' equity	77,634	

(1) See Note 16 of the notes to our financial statements for description of the method used to determine basic and diluted loss per share.



- (2) As adjusted to reflect our receipt of \$ \_\_\_\_\_ million from our sale of common stock at an assumed public offering price of \$ \_\_\_\_\_ per share. Each \$1.00 increase (decrease) in the public offering price per share would increase (decrease) each of cash and cash equivalents, total assets and total stockholders' equity by approximately \$ \_\_\_\_\_ million, assuming that the number of shares we are offering, as set forth on the cover page of this prospectus, remains the same and that the underwriters do not exercise their over-allotment option. Depending on market conditions and other considerations at the time we price this offering, we may sell a greater or lesser number of shares than the number set forth on the cover page of this prospectus. An increase (decrease) of 1,000,000 in the number of shares we are offering would increase (decrease) each of cash and cash equivalents, total assets and total stockholders' equity by approximately \$ \_\_\_\_\_ million, assuming the public offering price per share remains the same. An increase of 1,000,000 in the number of shares we are offering, together with a \$1.00 increase in the public offering price per share, would increase each of cash and cash equivalents, total assets and total stockholders' equity by approximately \$ \_\_\_\_\_ million. A decrease of 1,000,000 in the number of shares we are offering, together with a \$1.00 decrease in the public offering price per share, would decrease each of cash and cash equivalents, total assets and total stockholders' equity by approximately \$ \_\_\_\_\_ million. This information is illustrative only, and following the pricing of this offering, we will update this information based on the actual public offering price and other terms of this offering.

---

## RISK FACTORS

*This investment in our common stock involves a high degree of risk. You should carefully read and consider the following risk factors, in addition to the other information set forth in this prospectus or incorporated by reference herein, including our financial statements and the related notes, before purchasing shares of our common stock. If any of these risks actually occurs, our business, business prospects, financial condition, operating results or cash flows could be materially harmed. In any such case, the trading price of our common stock could decline and you could lose all or part of your investment.*

### **Risks Related to Our Business and Industry**

*We have incurred significant losses since our inception and anticipate that we will continue to incur losses for the foreseeable future. We may never achieve or sustain profitability.*

We are a clinical-stage biopharmaceutical company with a limited operating history. Biopharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. We are not profitable and have incurred losses in each year since our inception in December 1995. We have not generated any revenue from product sales to date. We continue to incur significant research and development and other expenses related to our ongoing operations. Our net loss for the three months ended March 31, 2011 was \$7.2 million. As of March 31, 2011, we had a retained deficit of \$105.3 million. We expect to continue to incur losses for the foreseeable future, and we expect these losses to increase as we continue our development of, and seek regulatory approvals for, our small molecule drug conjugates, or SMDCs, and companion imaging diagnostics, and begin to commercialize any approved products. As such, we are subject to all the risks incident to the creation of new SMDCs and companion imaging diagnostics, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. If our product candidates fail in clinical trials, or do not gain regulatory approval, or fail to achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

*We are a clinical-stage company with no approved products, which makes it difficult to assess our future viability.*

We were incorporated in December 1995, are a clinical-stage company and, as of March 31, 2011, have not derived any revenue from the sales of our products. Our operations to date have been limited to organizing and staffing our company, acquiring, developing and securing our technology, undertaking preclinical studies and clinical trials of our product candidates and engaging in research and development under collaboration agreements. We have not yet demonstrated an ability to obtain regulatory approval, formulate and manufacture commercial-scale products, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, it is difficult to predict our future success and the viability of any commercial programs that we may choose to take forward. From our inception through March 31, 2011, we have derived non-grant related revenues of \$11.9 million from payments under collaborative agreements with Bristol-Myers Squibb, or BMS, and Sanofi-Aventis. We do not expect any further payments under these agreements, neither of which are still in force.

*We are highly dependent on the success of our lead SMDC, EC145, and we cannot give any assurance that we will successfully complete its clinical development, or that it will receive regulatory approval or be successfully commercialized.*

Our lead SMDC, EC145, has been evaluated in a randomized phase 2 clinical trial for the treatment of women with platinum-resistant ovarian cancer, or PROC, and is currently being evaluated in a randomized phase 3 clinical trial in the same indication. In addition, we recently completed a phase 2

single-arm clinical trial for heavily pre-treated non-small cell lung cancer, or NSCLC and are currently planning an additional randomized phase 2 clinical trial in the same indication. Our future trials may not be successful, and EC145 may never receive regulatory approval or be successfully commercialized. We may fail to obtain necessary marketing approvals for EC145 from the EMA or FDA or similar non-U.S. regulatory authorities if our clinical development program for EC145 fails to demonstrate that it is safe and effective to the satisfaction of such authorities, or if we have inadequate financial or other resources to advance EC145 through the necessary development activities. Even if EC145 receives regulatory approval, we may not be successful in marketing it for a number of reasons, including the introduction by our competitors of more clinically-effective or cost-effective alternatives or failure in our sales and marketing efforts. Any failure to obtain approval of EC145 and successfully commercialize it would have a material and adverse impact on our business.

***The results of previous clinical trials may not be predictive of future results, and our current and planned clinical trials may not satisfy the requirements of the FDA or other non-U.S. regulatory authorities.***

The clinical trials of our product candidates are, and the manufacturing and marketing of any approved products will be, subject to extensive and rigorous review and regulation by numerous government authorities in the United States, Europe and in other countries where we intend to test and market our product candidates. Before obtaining regulatory approvals for the commercial sale of any product candidate, we must demonstrate through preclinical testing and clinical trials that the product candidate is safe and effective for use in each indication for which we intend to market such product candidate. This process can take many years and requires the expenditure of substantial financial and human resources and may include post-marketing trials and surveillance. To date, we have not completed any randomized phase 3 clinical trials. We have completed two phase 2 single-arm and one phase 2 randomized clinical trials with EC145 for the treatment of patients with advanced ovarian cancer and NSCLC. In May 2011 we began evaluating EC145 in a phase 3 clinical trial, known as PROCEED, in PROC. We have three other product candidates in phase 1 clinical trials. In addition, we have other product candidates in the discovery and preclinical testing stages.

Positive results from preclinical studies and early clinical trials should not be relied upon as evidence that later-stage or large-scale clinical trials will succeed. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, even after promising results in earlier trials. We will be required to demonstrate with substantial evidence through adequate and well-controlled clinical trials, including our phase 3 trial of EC145 for the treatment of women with PROC, which is currently underway, that our product candidates are safe and effective for use in the target population before we can seek regulatory approvals for their commercial sale in the United States.

In our end of phase 2 meeting with the FDA related to EC145, the FDA stated that, because of the difficulty in reliably determining cancer progression based on imaging studies in ovarian cancer, its office policy is to require overall survival, or OS, to be the primary endpoint for an ovarian cancer registration trial. However, the FDA stated that we may choose, at our own risk, to conduct a phase 3 trial in which progression free survival, or PFS, is the primary endpoint; provided that for such a trial to be the basis for approval, the PFS results must be very robust statistically and clinically meaningful, and the trial must be powered to demonstrate a statistically significant OS benefit. In addition to evaluating PFS in the patient population whose lesions over-expressed the folate receptor, EC20(+) and EC20(++) patients, we also plan to conduct a PFS analysis of the EC20(++) patient subset as part of the PROCEED clinical trial protocol. Even if our phase 3 trial meets either of its PFS primary endpoints, a positive trend in OS at the time of filing our new drug application, or NDA, may be required for approval or the FDA may delay consideration of approval until final OS data becomes available, which would result in significant additional costs and

delay our ability to market EC145 for this indication. The FDA also noted that the final OS analysis from our phase 3 trial would be required as a post-marketing commitment should approval be granted based upon PFS. In addition, if the FDA approves EC145 based upon meeting either of our PFS primary endpoints, in certain circumstances the approval could be withdrawn if any required post-marketing trials or analyses do not meet FDA requirements. Furthermore, as is typical for cancer drug approvals, the FDA stated that for the initial approval of EC145 to be based on a single phase 3 clinical trial, the trial must provide evidence of persuasive and robust statistically significant clinical benefit such that it would be considered unethical to conduct another trial. If we fail to demonstrate a benefit of this magnitude in our phase 3 trial, we would expect that the FDA would require us to conduct a second phase 3 trial in order to receive marketing approval of EC145 for the treatment of PROC. Such a requirement would result in significant additional cost and would delay our ability to market EC145 for this indication.

Patients in our initial phase 3 trial are imaged with our companion imaging diagnostic, EC20, prior to treatment with EC145. Although EC20 is part of our phase 3 trial design, there can be no assurance that this trial will provide a sufficient basis for approval of an NDA for EC20. Similarly, we can provide no assurance to you that EC145 will be approved without EC20 approval.

The FDA and other regulatory authorities may change requirements for the approval of our product candidates even after reviewing and providing non-binding comment on a protocol for a pivotal phase 3 clinical trial that has the potential to result in FDA approval. In addition, regulatory authorities may also approve any of our product candidates for fewer or more limited indications than we request, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. Any of the foregoing scenarios could materially harm the commercial prospects for our product candidates.

***Our efforts to obtain conditional marketing authorization for EC145 and EC20 from the European Medicines Agency may be unsuccessful.***

We are preparing applications to be filed with the EMA for conditional marketing authorization for EC145 for the treatment of PROC and for EC20 for patient selection. These filings will be based on the results of our randomized phase 2 clinical trial, which we refer to as the PRECEDENT trial, which investigated EC145 in combination with standard chemotherapy, pegylated liposomal doxorubicin, or PLD, for treatment of women with PROC and which also evaluated the utility of EC20 for patient selection. Our filings will be supported by a separate phase 2 single agent trial that we conducted. The PRECEDENT trial met its primary endpoint, as the combination of EC145 and PLD showed an improvement in the time to disease progression or death compared to PLD alone. This improvement was more substantial in patients who had been selected with the companion imaging diagnostic EC20.

We cannot predict with any certainty whether the EMA will grant the marketing authorizations that we intend to seek in these applications. Marketing authorizations based on phase 2 randomized studies are unusual and, if granted, are subject to significant conditions, which likely would include requirements to:

complete the phase 3 study;

confirm that the patient risk-benefit is positive; and

complete an annual renewal process.

If the EMA were to grant conditional marketing authorization of EC145 and EC20 based on our phase 2 studies, that authorization could be further limited or even withdrawn if our required phase 3 studies fail to demonstrate evidence of persuasive and robust statistically significant clinical benefit or result in

unexpected safety concerns with the study drugs. We cannot give any assurance that the EMA will approve our applications for conditional marketing authorization or that, if approved, that the labeling restrictions and other approval conditions will enable us to profitably commercialize these drug candidates in the European Union. Any such conditional approval by the EMA would not authorize us to commercialize EC145 or EC20 in any country outside the European Union and would not be expected to have any beneficial effect on our ability to obtain regulatory approval from the FDA or other regulatory agencies.

***Our plans to file applications with the EMA may be deferred or precluded by additional analyses.***

We are planning to base our applications to the EMA for conditional marketing authorization on the results of our PRECEDENT trial. However, in connection with the applications, we will conduct additional analyses of the PRECEDENT trial results that have not yet been completed. These include EC20 validation, independent PFS, and final OS analyses. If the results of the additional analyses do not support the reported results of the PRECEDENT trial, our plans to file applications with the EMA may be delayed or abandoned.

***There is a high risk that our development and clinical activities will not result in commercial products, and we will have invested in our current development and clinical programs, to the exclusion of others, for several more years before it is known whether one or more of our product candidates will receive regulatory approval or be commercially introduced.***

Our product candidates are in various stages of development and are prone to the risks of failure inherent in biopharmaceutical development. We will need to complete significant additional clinical trials before we can demonstrate that our product candidates are safe and effective to the satisfaction of the FDA and other non-U.S. regulatory authorities. Clinical trials are expensive and uncertain processes that take years to complete. Failure can occur at any stage of the process. Further, even if our product candidates receive required regulatory approvals, we cannot assure you that they will be successful commercially. In addition, we have a large number of product candidates in our development pipeline, and while we invest in the technology and indications that we believe are most promising, financial and resource constraints may require us to forego or delay opportunities that may ultimately have greater commercial potential than those programs we are currently actively developing.

***The coverage and reimbursement status of newly approved biopharmaceuticals is uncertain, and failure to obtain adequate coverage and adequate reimbursement of EC145 or other product candidates could limit our ability to generate revenue.***

There is significant uncertainty related to the third-party coverage and reimbursement of newly approved drugs. The commercial success of our product candidates, including EC145, in both domestic and international markets will depend in part on the availability of coverage and adequate reimbursement from third-party payors, including government payors, such as the Medicare and Medicaid programs, and managed care organizations. Government and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new drugs and, as a result, they may not cover or provide adequate payment for our product candidates. These payors may conclude that our product candidates are less safe, less effective or less cost-effective than existing or later introduced products, and third-party payors may not approve our product candidates for coverage and reimbursement or may cease providing coverage and reimbursement for these product candidates. Because each country has one or more payment systems, obtaining reimbursement in the United States and internationally may take significant time and cause us to spend significant resources. The failure to obtain coverage and adequate reimbursement for our product candidates or healthcare cost containment initiatives that limit or deny reimbursement for our product candidates may significantly reduce any future product revenue.

In the United States and in other countries, there have been and we expect there will continue to be a number of legislative and regulatory proposals to change the healthcare system in ways that could significantly affect our business. International, federal and state lawmakers regularly propose and, at times, enact legislation that would result in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. The U.S. government and other governments have shown significant interest in pursuing healthcare reform, as evidenced by the recent passing of the Patient Protection and Affordable Care Act and its amendment, the Health Care and Education Reconciliation Act. Such government-adopted reform measures may adversely impact the pricing of healthcare products and services in the United States or internationally and the amount of reimbursement available from governmental agencies or other third-party payors. In addition, in some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. The continuing efforts of U.S. and other governments, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce healthcare costs may adversely affect our ability to set satisfactory prices for our products, to generate revenues, and to achieve and maintain profitability.

In some countries, particularly in the European Union, prescription drug pricing is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product candidate. To obtain reimbursement or pricing approval in some countries, we may be required to conduct additional clinical trials that compare the cost-effectiveness of our product candidates to other available therapies. If reimbursement of our product candidates is unavailable or limited in scope or amount in a particular country, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability of our products in such country.

***Our development activities could be delayed or stopped for a number of reasons, many of which are outside our control, including failure to recruit and enroll patients for clinical trials.***

Each of our clinical trials requires the investment of substantial expense and time and the timing of the commencement, continuation and completion of these clinical trials may be subject to significant delays relating to various causes. We do not know whether our current clinical trials will be completed on schedule, or at all, and we cannot guarantee that our future planned clinical trials will begin on time, or at all. Clinical trials must be conducted in accordance with FDA or other applicable foreign government guidelines and are subject to oversight by the FDA, other foreign governmental agencies and independent institutional review boards, or IRBs, at the medical institutions where the clinical trials are conducted. In addition, clinical trials must be conducted with supplies of our product candidates produced under current Good Manufacturing Practice, or cGMP, and other requirements in foreign countries, and may require large numbers of test patients. Our current and planned clinical trials could be substantially delayed or prevented by several factors, including:

limited number of, and competition for, suitable sites to conduct our clinical trials;

government or regulatory delays and changes in regulatory requirements, policy and guidelines;

delay or failure to obtain sufficient supplies of the product candidate for, or other drugs used in, our clinical trials as a result of our suppliers' non-compliance with cGMP, or for other reasons;

delay or failure to reach agreement on acceptable clinical trial agreement terms with prospective sites or investigators; and

delay or failure to obtain IRB approval to conduct a clinical trial at a prospective site.



The completion of our clinical trials could also be substantially delayed or prevented by several factors, including:

slower than expected rates of patient recruitment and enrollment;

unforeseen safety issues;

lack of efficacy evidenced during clinical trials, which risk may be heightened given the advanced state of disease and lack of response to prior therapies of patients in our clinical trial for EC145 in PROC;

termination of our clinical trials by an IRB at one or more clinical trial sites;

inability or unwillingness of patients or medical investigators to follow our clinical trial protocols; and

inability to monitor patients adequately during or after treatment or high patient dropout rates.

For example, we have in the past experienced slower than expected rates of patient recruitment and enrollment with our PRECEDENT trial due to a number of reasons, including slower than expected clinical trial site activations due to prolonged contract negotiations and delays in scheduling or approval by IRBs, lack of qualified patients at a particular site, competition with other clinical trials for patients, and clinical investigator scheduling and availability due to vacations or absences.

Our clinical trials may be suspended or terminated at any time by the FDA, other regulatory authorities or us. For example, a Data Safety Monitoring Board, or DSMB, will monitor PROCEED and could recommend closing the trial based on the results of a pre-specified interim futility analysis or any observed unexpected safety concern that may occur during the trial. Failure or significant delay in completing clinical trials for our product candidates could materially harm our financial results and the commercial prospects for our product candidates.

***Even if we are able to obtain regulatory approval of EC145 based on our initial phase 3 clinical trial, marketing will be limited to our intended indication of PROC and not ovarian cancer generally, or any other type of cancer.***

Even if we are able to obtain regulatory approval of EC145 based on our initial phase 3 clinical trial, PROCEED, and formulate and manufacture a commercial-scale product, our marketing of EC145 will be limited to our initial intended indication of PROC and not ovarian cancer generally, or any other type of cancer. According to the American Cancer Society, approximately 21,500 new cases of ovarian cancer were reported in the United States in 2009. Of those ovarian cancer cases, approximately 50 percent of patients will eventually develop PROC. Marketing of EC145, if approved for our intended indication, will be limited to those women with ovarian cancer who demonstrate a resistance to platinum-based therapies and who are EC20(+) or EC20(++). The intended indication for use may be further limited to only patients who are EC20(++). Marketing efforts for EC145 outside of our approved indication of PROC will require additional regulatory approvals, which we may never pursue or receive.

***Our product candidates may cause undesirable side effects that could delay or prevent their regulatory approval or commercialization.***

Common side effects of EC145 include abdominal pain, vomiting, constipation, nausea, fatigue, loss of appetite and peripheral sensory neuropathy. Because our products have been tested in relatively small patient populations and for limited durations to date, additional side effects may be observed as their development progresses.

Undesirable side effects caused by any of our product candidates could cause us or regulatory authorities to interrupt, delay or discontinue clinical trials and could result in the denial of regulatory approval by the FDA or other non-U.S. regulatory authorities for any or all targeted indications. This, in turn, could prevent us from commercializing our product candidates and generating revenues from their sale. In addition, if one of our products receives marketing approval and we or others later identify undesirable side effects caused by this product:

regulatory authorities may withdraw their approval of this product;

we may be required to recall this product, change the way this product is administered, conduct additional clinical trials or change the labeling of this product;

this product may be rendered less competitive and sales may decrease; or

our reputation may suffer generally both among clinicians and patients.

Any one or a combination of these events could prevent us from achieving or maintaining market acceptance of the affected product or could substantially increase the costs and expenses of commercializing the product, which in turn could delay or prevent us from generating significant revenues from the sale of the product.

***We may not obtain government regulatory approval to market our product candidates or negotiate satisfactory pricing for our product candidates which could adversely impact our future profitability.***

We intend to seek approval to market certain of our product candidates in both the United States and in non-U.S. jurisdictions. Prior to commercialization, each product candidate will be subject to an extensive and lengthy governmental regulatory approval process in the United States and in other countries. In order to market our products in the European Union and many other non-U.S. jurisdictions, we must obtain separate regulatory approvals and comply with numerous and varying regulatory requirements. Although we intend to file applications with the EMA seeking conditional marketing authorization for EC145 and EC20 based on the results of our randomized phase 2 PRECEDENT trial, we have not yet filed for marketing approval for any of our product candidates in the U.S. or in any other jurisdictions and may not receive the approvals necessary to commercialize our product candidates in any market. We may not be able to obtain regulatory approval for any product candidates, or even if approval is obtained, the labeling for such products may place restrictions on their use that could materially impact the marketability and profitability of the product subject to such restrictions. Satisfaction of these regulatory requirements, which includes satisfying the FDA and foreign regulatory authorities that the product is both safe and effective for its intended uses, typically takes several years or more depending upon the type, complexity, novelty and safety profile of the product and requires the expenditure of substantial resources. Uncertainty with respect to meeting the regulatory requirements governing our product candidates may result in excessive costs or extensive delays in the regulatory approval process, adding to the already lengthy review process.

Also, the approval procedure varies among countries and can involve additional testing and data review. The time and safety and efficacy data required to obtain foreign regulatory approval may differ from that required to obtain FDA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory agencies in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory agencies in other countries or by the FDA. However, a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory approval process in other jurisdictions, including approval by the FDA. The failure to obtain regulatory approval in any jurisdiction could materially harm our business.

*We may require substantial additional funding which may not be available to us on acceptable terms, or at all.*

We are advancing multiple product candidates through clinical development. We believe that our current cash position, including cash equivalents and short term investments is sufficient to fund the operations, including PROCEED, our phase 3 clinical trial of EC145 and EC20, through the availability of final primary PFS data from that study, which is anticipated to be in the second quarter of 2013. If we were to receive conditional marketing authorization in Europe of EC145 and EC20 prior to the completion of PROCEED, this could impact the enrollment timeline as European sites would transition from clinical trials to commercial use. This could delay the availability of final data from the PROCEED trial. We may be able to mitigate this potential delay by adding clinical trial sites in locations where conditional marketing authorization has not been granted. We would require additional funding through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements, to commercialize any of our SMDCs or companion imaging diagnostics. In addition, if the FDA requires us to undertake a second phase 3 clinical trial or obtain final OS data from PROCEED we will also require additional funding.

Our future funding requirements will depend on many factors, including but not limited to:

our need to expand our research and development activities;

the rate of progress and cost of our clinical trials and the need to conduct clinical trials beyond those planned;

the outcome of the applications we intend to file with the EMA for conditional marketing authorization for EC145 and EC20;

the costs associated with establishing a sales force and commercialization capabilities;

the costs of acquiring, licensing or investing in businesses, product candidates and technologies;

the costs and timing of seeking and obtaining approval from the FDA and non-U.S. regulatory authorities;

our ability to maintain, defend and expand the scope of our intellectual property portfolio;

our need and ability to hire additional management and scientific and medical personnel;

the effect of competing technological and market developments;

our need to implement additional internal systems and infrastructure, including financial and reporting systems appropriate for a public company; and

the economic and other terms and timing of collaboration, licensing or other arrangements into which we may enter.

Until we can generate a sufficient amount of revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials or research and development programs, or enter into collaboration or other arrangements with other companies to provide such funding for one or more of such clinical trials or programs in exchange for our affording such partner commercialization or other rights to the product candidates that are the subject of such clinical trials or programs.



In addition, our operating plan may change as a result of many factors currently unknown to us, and we may need additional funds sooner than planned. Also, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

***Raising additional capital may cause dilution to existing stockholders, restrict our operations or require us to relinquish rights.***

We may seek the additional capital necessary to fund our operations through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of the current stockholders will be diluted and the terms may include liquidation or other preferences that adversely affect their rights as a common stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring additional debt, making capital expenditures, or declaring dividends, or which impose financial covenants on us that limit our operating flexibility to achieve our business objectives. If we raise additional funds through collaboration and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us. In addition, we cannot assure you that additional funds will be available to us on favorable terms or at all.

***If our competitors develop and market products that are more effective, safer or less expensive than our product candidates, our commercial opportunities will be negatively impacted.***

The life sciences industry is highly competitive, and we face significant competition from many pharmaceutical, biopharmaceutical and biotechnology companies that are researching and marketing products designed to address various types of cancer and other indications we treat or may treat in the future. We are currently developing cancer therapeutics that will compete with other drugs and therapies that currently exist or are being developed. Also, our lead SMDC, EC145, is being clinically developed not as a primary therapy but as a therapy for patients whose tumors have developed resistance to chemotherapy, which limits its potential addressable market. Products we may develop in the future are also likely to face competition from other drugs and therapies. Many of our competitors have significantly greater financial, manufacturing, marketing and drug development resources than we do. Large biopharmaceutical companies, in particular, have extensive experience in clinical testing and in obtaining regulatory approvals for drugs. Additional mergers and acquisitions in the biopharmaceutical industry may result in even more resources being concentrated by our competition. Competition may increase further as a result of advances in the commercial applicability of technologies currently being developed and a greater availability of capital investment in those fields. These companies also have significantly greater research and marketing capabilities than we do. Some of the companies developing products which may compete with EC145 include Roche Holdings, Eisai Company, Nektar Therapeutics, Sunesis Pharmaceuticals, Eli Lilly, Sanofi-Aventis, and Amgen. In addition, many universities and U.S. private and public research institutes are active in cancer research, the results of which may result in direct competition with EC145 or other of our product candidates.

In certain instances, the drugs which will compete with our product candidates are widely available or established, existing standards of care. To compete effectively with these drugs, our product candidates will need to demonstrate advantages that lead to improved clinical safety or efficacy compared to these competitive products. We cannot assure you that we will be able to achieve competitive advantages versus alternative drugs or therapies. If our competitors market products that are more effective, safer or less expensive than our product candidates, if any, or that reach the market sooner than our product candidates, if any, we may not achieve commercial success.

We believe that our ability to successfully compete will depend on, among other things:

our ability to design and successfully execute appropriate clinical trials;

our ability to recruit and enroll patients for our clinical trials;

the results of our clinical trials and the efficacy and safety of our product candidates;

the speed at which we develop our product candidates;

achieving and maintaining compliance with regulatory requirements applicable to our business;

the timing and scope of regulatory approvals, including labeling;

adequate levels of reimbursement under private and governmental health insurance plans, including Medicare;

our ability to protect intellectual property rights related to our product candidates;

our ability to commercialize and market any of our product candidates that may receive regulatory approval;

our ability to have our partners manufacture and sell commercial quantities of any approved product candidates to the market;

acceptance of our product candidates by physicians, other healthcare providers and patients; and

the cost of treatment in relation to alternative therapies.

In addition, the biopharmaceutical industry is characterized by rapid technological change. Our future success will depend in large part on our ability to maintain a competitive position with respect to these technologies. Our competitors may render our technologies obsolete by advances in existing technological approaches or the development of new or different approaches, potentially eliminating the advantages in our drug discovery process that we believe we derive from our research approach and proprietary technologies. Also, because our research approach integrates many technologies, it may be difficult for us to stay abreast of the rapid changes in each technology. If we fail to stay at the forefront of technological change, we may be unable to compete effectively.

***If we fail to attract and retain key management and scientific personnel, we may be unable to successfully develop or commercialize our product candidates.***

Our success as a specialized scientific business depends on our continued ability to attract, retain and motivate highly qualified management and scientific and clinical personnel. The loss of the services of any of our senior management could delay or prevent the commercialization of our product candidates.

We may not be able to attract or retain qualified management and scientific personnel in the future due to the intense competition for a limited number of qualified personnel among biopharmaceutical, biotechnology, pharmaceutical and other businesses, particularly in Indiana. If we are

## Edgar Filing: ENDOCYTE INC - Form S-1

not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will impede the achievement of our research and development objectives, our ability to raise additional capital and our ability to implement our business strategy.

***As we evolve from a company primarily involved in clinical development to a company also involved in commercialization, we may encounter difficulties in managing our growth and expanding our operations successfully.***

As we advance our product candidates through clinical trials, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with such third parties, as well as additional collaborators and suppliers.

Maintaining these relationships and managing our future growth will impose significant added responsibilities on members of our management and other personnel. We must be able to: manage our development efforts effectively; manage our clinical trials effectively; hire, train and integrate additional management, development, administrative and sales and marketing personnel; improve our managerial, development, operational and finance systems; and expand our facilities, all of which may impose a strain on our administrative and operational infrastructure.

***If we are unable to establish sales, marketing and distribution capabilities or to enter into agreements with third parties to do so, we may be unable to successfully market and sell any products, even if we are able to obtain regulatory approval.***

We currently have no marketing, sales or distribution capabilities. If our product candidates receive regulatory approval, we intend to establish our sales and marketing organization with technical expertise and supporting distribution capabilities to commercialize our product candidates, which will be expensive and time consuming. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of these products. With respect to our product candidates, we may choose to collaborate 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. To the extent that we enter into co-promotion or other licensing arrangements, our product revenue is likely to be lower than if we directly marketed or sold our products. In addition, any revenue we receive will depend in whole or in part upon the efforts of such third parties, which may not be successful and are generally not within our control. If we are unable to enter into such arrangements on acceptable terms or at all, we may not be able to successfully commercialize any of our product candidates that receive regulatory approval. 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.

***If we do not establish development or commercialization collaborations, we may have to alter our development and marketing plans.***

Our development programs and potential commercialization of our product candidates will require substantial additional cash to fund expenses. Our strategy includes potentially selectively collaborating with leading biopharmaceutical, pharmaceutical and biotechnology companies to assist us in furthering development and potential commercialization of some of our product candidates in the United States or internationally. Although we are not currently party to any collaboration agreements, we may enter into collaborations in the future, especially for target indications in which the potential collaborator has particular therapeutic expertise or for markets outside of the United States. We face significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. We may not be able to negotiate collaborations on acceptable terms, or at all. If that were to occur, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization, reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund



development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring our product candidates to market and generate product revenue. In addition, even if we do enter into one or more development or commercialization arrangements, we cannot assure you that the objectives of such arrangements will be realized or that the arrangement will not be terminated or expire. For example, we previously entered into an exclusive license agreement with BMS in a collaboration to develop and commercialize folate conjugates, which was terminated in June 2010, we believe as a result of a change in its strategic focus.

***We rely on third parties to conduct clinical trials for our product candidates and plan to rely on third parties to conduct future clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, it may cause delays in commencing and completing clinical trials of our product candidates or we may be unable to obtain regulatory approval for or commercialize our product candidates.***

Clinical trials must meet applicable FDA and foreign regulatory requirements. We do not have the ability to independently conduct phase 2 or phase 3 clinical trials for any of our product candidates. We rely on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories, to conduct all of our clinical trials of our product candidates; however, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with its investigational plan and protocol. Moreover, the FDA and other non-U.S. regulatory authorities require us to comply with regulations and standards, commonly referred to as Good Clinical Practices for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate and that the trial subjects are adequately informed of the potential risks of participating in clinical trials. Our reliance on third parties does not relieve us of these responsibilities and requirements.

We or the third parties we rely on may encounter problems in clinical trials that may cause us or the FDA or foreign regulatory agencies to delay, suspend or terminate our clinical trials at any phase. These problems could include the possibility that we may not be able to manufacture sufficient quantities of materials for use in our clinical trials, conduct clinical trials at our preferred sites, enroll a sufficient number of patients for our clinical trials at one or more sites, or begin or successfully complete clinical trials in a timely fashion, if at all. Furthermore, we, the FDA or foreign regulatory agencies may suspend clinical trials of our product candidates at any time if we or they believe the subjects participating in the trials are being exposed to unacceptable health risks, whether as a result of adverse events occurring in our trials or otherwise, or if we or they find deficiencies in the clinical trial process or conduct of the investigation.

The FDA and foreign regulatory agencies could also require additional clinical trials before or after granting of marketing approval for any products, which would result in increased costs and significant delays in the development and commercialization of such products and could result in the withdrawal of such products from the market after obtaining marketing approval. Our failure to adequately demonstrate the safety and efficacy of a product candidate in clinical development could delay or prevent obtaining marketing approval of the product candidate and, after obtaining marketing approval, data from post-approval studies could result in the product being withdrawn from the market, either of which would likely have a material adverse effect on our business.

***We rely on third parties to manufacture and supply our product candidates.***

We do not currently own or operate manufacturing facilities for clinical or commercial production of our product candidates. We lack the resources and the capability to manufacture any of our product candidates on a clinical or commercial scale. We rely on four third-party suppliers to make the key components of EC145. The linker system for EC145 is currently obtained from a single source supplier and

we have identified two alternate suppliers to prevent a possible disruption of manufacturing EC145. We believe that we currently have, or have the ability to access, sufficient supplies of all of the key components of EC145 in sufficient quantities to conduct and complete our PROCEED clinical trial and any other clinical trials related to EC145. We also believe that the suppliers we have identified will have the capacity to manufacture EC145 in the quantities that our development and future commercialization efforts may require. We do not have any long-term supply arrangements with any of these third parties and obtain our raw materials on a purchase order-basis. We expect to continue to depend on third-party contract manufacturers for the foreseeable future.

If for some reason our contract manufacturers cannot perform as agreed, we may be unable to replace them in a timely manner and the production of our product candidates would be interrupted, resulting in delays in clinical trials and additional costs. For example, we are currently obtaining clinical trial quantities of EC145 and our other product candidates from our contract manufacturers. We have no experience with managing the manufacturing of commercial quantities of any of our product candidates and scaling-up production to commercial quantities could take us significant time and result in significant costs, both of which could delay commercialization of EC145 for PROC, NSCLC or any other indication or of any of our other SMDCs. Switching manufacturers may be difficult because the number of potential manufacturers is limited and the FDA must approve any replacement manufacturer prior to manufacturing our product candidates. Such approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our product candidates after receipt of FDA approval to manufacture any of our product candidates. It may be difficult or impossible for us to find a replacement manufacturer on acceptable terms quickly, or at all.

To date, our product candidates have been manufactured in small quantities for preclinical studies and clinical trials by third-party manufacturers. If the FDA or other regulatory agencies approve any of our product candidates for commercial sale, we expect that we would continue to rely, at least initially, on third-party manufacturers to produce commercial quantities of our approved product candidates, as is the case with EC145. These manufacturers may not be able to successfully increase the manufacturing capacity for any of our approved product candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA must review and approve. Additionally, any third-party manufacturer we retain to manufacture our product candidates on a commercial scale must pass an FDA pre-approval inspection for conformance to the cGMPs before we can obtain approval of our product candidates. If we are unable to successfully increase the manufacturing capacity for a product candidate in conformance with cGMPs, the regulatory approval or commercial launch of such products may be delayed or there may be a shortage in supply.

Our product candidates require precise, high quality manufacturing. Failure by our contract manufacturers to achieve and maintain high manufacturing standards could result in patient injury or death, product recalls or withdrawals, delays or failures in testing or delivery, cost overruns, or other problems that could seriously harm our business. Contract manufacturers may encounter difficulties involving production yields, quality control and quality assurance. These manufacturers are subject to ongoing periodic unannounced inspection by the FDA and corresponding state and non-U.S. authorities to ensure strict compliance with cGMP and other applicable government regulations and corresponding foreign standards; however, we do not have control over third-party manufacturers' compliance with these regulations and standards.

***We are subject to risks associated with the availability of key raw materials, such as technetium-99m, as well as drugs used in our clinical trials, such as Doxil.***

Our EC20 companion imaging diagnostic requires the use of the radioisotope technetium-99m, or Tc-99m, and there is currently a limited supply of Tc-99m worldwide. Tc-99m for nuclear medicine purposes is usually extracted from Tc-99m generators, which contain molybdenum-99, or Mo-99, as the usual parent nuclide for Tc-99m. The majority of Mo-99 produced for Tc-99m medical use comes from fission of highly enriched uranium from only five reactors around the world located in Canada, Belgium, South Africa, the Netherlands and France. Although Tc-99m is used in various nuclear medicine diagnostics utilized by healthcare providers, Tc-99m has a very short half-life (6 hours). As a result, healthcare providers extract Tc-99m from generators which use Mo-99. Mo-99 itself has a short half-life (2.75 days) and is sent to the nuclear medicine pharmacy directly from one of the five reactors. Accordingly, Tc-99m diagnostics are made on-site at the clinic, and neither Tc-99m nor Mo-99 can be inventoried. Sources of Tc-99m may be insufficient for our clinical trial site needs due to its limited supply globally. For example, global shortages of Tc-99m emerged in the past few years because aging nuclear reactors in the Netherlands and Canada that provided about two-thirds of the world's supply of Mo-99 were shut down repeatedly for extended maintenance periods and two replacement Canadian reactors constructed in the 1990s were closed before beginning operation for safety reasons.

We use, and plan to continue to use, EC20 or other companion imaging diagnostics that employ Tc-99m in our clinical trials. For example, EC20 is a component of PROCEED and, in the future, if our clinical trial sites are not able to obtain sufficient quantities of Tc-99m for use in EC20, we may not be able to gather sufficient data on EC20 during PROCEED and as a result, the approval of EC20 may be delayed. In addition, to the extent the approval of our product candidates depends on the screening and monitoring of the patient population with a companion imaging diagnostic such as EC20 in our clinical trials, we would experience a corresponding delay in approval and commercialization of these SMDCs if we are not able to obtain sufficient Tc-99m.

In June 2011, the manufacturer of Doxil announced that supplies of the drug may be limited over the next several weeks. If the supplies of Doxil are limited for an extended period of time, our PROCEED trial may be delayed.

***If a successful product liability claim or series of claims is brought against us for uninsured liabilities or in excess of insured liabilities, we could be forced to pay substantial damage awards.***

The use of any of our product candidates in clinical trials, and the sale of any approved products, may expose us to product liability claims. We currently maintain product liability insurance coverage in an amount which we believe is adequate for our clinical trials currently in progress and those recently completed. We monitor the amount of coverage we maintain as the size and design of our clinical trials evolve and intend to adjust the amount of coverage we maintain accordingly. However, we cannot assure you that such insurance coverage will fully protect us against some or all of the claims to which we might become subject. We might not be able to maintain adequate insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against potential losses. In the event a claim is brought against us, we might be required to pay legal and other expenses to defend the claim, as well as uncovered damages awards resulting from a claim brought successfully against us. Furthermore, whether or not we are ultimately successful in defending any such claims, we might be required to direct financial and managerial resources to such defense and adverse publicity could result, all of which could harm our business.

***Each of our product candidates will remain subject to ongoing regulatory review even if it receives marketing approval. If we or our contractors fail to comply with continuing regulations, we or they may be subject to enforcement action that could adversely affect us.***

Even if our product candidates become approved products, we and our contractors will continue to be subject to pervasive regulation by the FDA and other regulatory authorities. We and our contractors will continue to be subject to FDA requirements governing among other things the manufacture, packaging, sale, promotion adverse event reporting, storage and recordkeeping of our approved products. Although we have not received any notice that we are the subject of any FDA enforcement action, it is possible that we may be in the future and that could have a material adverse effect on our business. We may be slow to adapt, or may never adapt, to changes in existing regulatory requirements or adoption of new regulatory requirements. If we or any of our contractors fail to comply with the requirements of the FDA and other applicable U.S. or foreign governmental or regulatory authorities or previously unknown problems with our products, manufacturers or manufacturing processes are discovered, we or the contractor could be subject to administrative or judicially imposed sanctions, including: restrictions on the products, the manufacturers or manufacturing processes we use, warning letters, civil or criminal penalties, fines, injunctions, product seizures or detentions, import bans, voluntary or mandatory product recalls and publicity requirements, suspension or withdrawal of regulatory approvals, total or partial suspension of production, and refusal to approve pending applications for marketing approval of new products to approved applications.

***We deal with hazardous materials and must comply with environmental laws and regulations, which can be expensive and restrict how we do business.***

Our activities involve the controlled storage, use, and disposal of hazardous materials, including corrosive, explosive and flammable chemicals, biologic waste and various radioactive compounds. We are subject to federal, state, and local laws and regulations governing the use, manufacture, storage, handling, and disposal of these hazardous materials. Although we believe that our safety procedures for the handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials.

In the event of an accident, state or federal authorities may curtail our use of these materials, and we could be liable for any civil damages, which may exceed our financial resources and may seriously harm our business. We currently maintain insurance covering hazardous waste clean up costs in an amount we believe to be sufficient for typical risks regarding our handling of these materials, however, this amount of coverage may not be sufficient to cover extraordinary or unanticipated events. Additionally, an accident could damage, or force us to temporarily shut down, our operations.

***Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.***

Under Section 382 of the U.S. Internal Revenue Code, or Code, a corporation that experiences a more-than 50 percent ownership change over a three-year testing period is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. Changes in our stock ownership could result in an ownership change under Section 382 of the Code and limit the future use of our NOLs. We have not determined whether our initial public offering resulted in an ownership change under Section 382 of the Code or the impact that this offering may have on this issue. If an ownership change were to occur, we may not be able to utilize a material portion of our NOLs.

---

## Risks Related to Intellectual Property

### *Our proprietary rights may not adequately protect our technologies and product candidates.*

Our commercial success will depend in part on our ability to obtain additional patents and protect our existing patent position as well as our ability to maintain adequate protection of other intellectual property for our technologies, product candidates, and any future products in the United States and other countries. If we do not adequately protect our intellectual property, competitors may be able to use our technologies and erode or negate any competitive advantage we may have, which could harm our business and ability to achieve profitability. The laws of some foreign countries do not protect our proprietary rights to the same extent or in the same manner as U.S. laws, and we may encounter significant problems in protecting and defending our proprietary rights in these countries. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies, product candidates and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets.

We apply for patents covering both our technologies and product candidates, as we deem appropriate. However, we may fail to apply for patents on important technologies or product candidates in a timely fashion, or at all. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products and technologies. We cannot be certain that our patent applications will be approved or that any patents issued will adequately protect our intellectual property. For example, our issued patents do not claim composition of matter protection for the drug payloads connected to the linker system and targeting ligand modules of our SMDCs. In addition, we generally do not control the patent prosecution of subject matter that we license from others, including those licensed from Purdue Research Foundation, a non-profit organization which manages the intellectual property of Purdue University. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we would over our own and would need to involve Purdue Research Foundation in legal proceedings to enforce these intellectual property rights. Moreover, the patent positions of biopharmaceutical companies are highly uncertain and involve complex legal and factual questions for which important legal principles are often evolving and remain unresolved. As a result, the validity and enforceability of patents cannot be predicted with certainty. In addition, we do not know whether:

we or our licensors were the first to make the inventions covered by each of our issued patents and pending patent applications;

we or our licensors were the first to file patent applications for these inventions;

any of our product candidates will be Orange Book eligible;

others will independently develop similar or alternative technologies or duplicate any of our technologies;

any of our or our licensors pending patent applications will result in issued patents;

any of our or our licensors patents will be valid or enforceable;

any patents issued to us or our licensors and collaboration partners will provide us with any competitive advantages, or will be challenged by third parties;

we will develop additional proprietary technologies that are patentable;

the U.S. government will exercise any of its statutory rights to our intellectual property that was developed with government funding; or

our business may infringe the patents or other proprietary rights of others.

The actual protection afforded by a patent varies based on products or processes, from country to country and depends upon many factors, including the type of patent, the scope of its coverage, the availability of regulatory related extensions, the availability of legal remedies in a particular country, the validity and enforceability of the patents and our financial ability to enforce our patents and other intellectual property. Our ability to maintain and solidify our proprietary position for our products will depend on our success in obtaining effective claims and enforcing those claims once granted. Our issued patents and those that may issue in the future, or those licensed to us, may be challenged, narrowed, invalidated or circumvented, and the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages against competitors with similar products. Due to the extensive amount of time required for the development, testing and regulatory review of a potential product, it is possible that, before any of our product candidates can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent.

We also rely on trade secrets to protect some of our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to maintain. While we use reasonable efforts to protect our trade secrets, our or any of our collaboration partners' employees, consultants, contractors or scientific and other advisors may unintentionally or willfully disclose our proprietary information to competitors and we may not have adequate remedies in respect of that disclosure. Enforcement of claims that a third party has illegally obtained and is using trade secrets is expensive, time consuming and uncertain. In addition, non-U.S. courts are sometimes less willing than U.S. courts to protect trade secrets. If our competitors independently develop equivalent knowledge, methods and know-how, we would not be able to assert our trade secrets against them and our business could be harmed.

***The intellectual property protection for our product candidates is dependent on third parties.***

With respect to patent applications relating to our product candidates that incorporate patents licensed from Purdue Research Foundation, the right and obligation to prosecute and maintain the patents and patent applications covered by these license agreements are retained by Purdue Research Foundation. Generally, we do not have the right to prosecute and maintain such patents in our territories, unless Purdue Research Foundation elects not to file, prosecute or maintain any or all of such patents. We would need to determine, with our other potential partners, who would be responsible for the prosecution of patents relating to any joint inventions. If any of our licensing partners fail to appropriately prosecute and maintain patent protection for any of our product candidates, our ability to develop and commercialize those product candidates may be adversely affected and we may not be able to prevent competitors from making, using and selling competing products.

***If we breach any of the agreements under which we license commercialization rights to our product candidates or technology from third parties, we could lose license rights that are important to our business.***

We license the use, development and commercialization rights for some of our product candidates, and we expect to enter into similar licenses in the future. For example, we licensed exclusive worldwide rights from Purdue Research Foundation, pursuant to a license agreement, which enables us to use and administer EC145 in the treatment of cancer. Under this license we are subject to commercialization and development, diligence obligations, sublicense revenue sharing requirements, royalty payments and other

obligations. If we fail to comply with any of these obligations or otherwise breach this license agreement or any other current or future licenses, our licensing partners may have the right to terminate the license in whole or in part or to terminate the exclusive nature of the license. Generally, the loss of any of current or future licenses or the exclusivity rights provided therein could materially harm our financial condition and operating results.

***The patent protection for our product candidates may expire before we are able to maximize their commercial value, which may subject us to increased competition and reduce or eliminate our opportunity to generate product revenue.***

The patents for our product candidates have varying expiration dates and, if these patents expire, we may be subject to increased competition and we may not be able to recover our development costs or market any of our approved products profitably. For example, one of our U.S. patents claims compounds encompassing EC145 and is due to expire in 2026, and two of our other U.S. patents claim compounds encompassing EC20 and are due to expire in 2024. In some of the larger potential market territories, such as the United States and Europe, patent term extension or restoration may be available to compensate for time taken during aspects of the product's development and regulatory review. However, we cannot be certain that such an extension will be granted, or if granted, what the applicable time period or the scope of patent protection afforded during any extension period will be. In addition, even though some regulatory authorities may provide some other exclusivity for a product under their own laws and regulations, we may not be able to qualify the product or obtain the exclusive time period. If we are unable to obtain patent term extension/restoration or some other exclusivity, we could be subject to increased competition and our opportunity to establish or maintain product revenue could be substantially reduced or eliminated. Furthermore, we may not have sufficient time to recover our development costs prior to the expiration of our U.S. and non-U.S. patents.

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

Filing, prosecuting and defending patents on all of our product candidates throughout the world would be prohibitively expensive. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products in jurisdictions where we do not have any issued patents and our patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

***If we are sued for infringing intellectual property rights of third parties, litigation will be costly and time-consuming and could prevent us from developing or commercializing our product candidates.***

Our commercial success depends, in part, on our not infringing the patents and proprietary rights of other parties and not breaching any collaboration or other agreements we have entered into with regard to our technologies and product candidates. Numerous third-party U.S. and non-U.S. issued patents and

pending applications exist in the areas of targeted therapy and targeted diagnostics, including cytotoxic agents and other active compounds and formulations comprising such compounds.

Because patent applications can take several years to issue, if they are issued at all, there may currently be pending applications, unknown to us, that may result in issued patents that cover our technologies or product candidates. It is uncertain whether the issuance of any third-party patent would require us to alter our products or processes, obtain licenses or cease activities related to the development or commercialization of our product candidates. If we wish to use the technology or compound claimed in issued and unexpired patents owned by others, we may need to obtain a license from the owner, enter into litigation to challenge the validity of the patents or incur the risk of litigation in the event that the owner asserts that any of our product candidates infringe its patents. The failure to obtain a license to technology or the failure to challenge an issued patent that we may require to discover, develop or commercialize our products may have a material adverse impact on us.

There is a substantial amount of litigation involving intellectual property in the biopharmaceutical industry generally. If a third party asserts that our products or technologies infringe its patents or other proprietary rights, we could face a number of risks that could seriously harm our results of operations, financial condition and competitive position, including:

infringement and other intellectual property claims, which would be costly and time-consuming to defend, whether or not the claims have merit, and which could delay the regulatory approval process and divert management's attention from our business;

substantial damages for past infringement, which we may have to pay if a court determines that our product candidates or technologies infringe a competitor's patent or other proprietary rights;

a court prohibiting us from selling or licensing our technologies or our product candidates unless the third-party licenses its patents or other proprietary rights to us on commercially reasonable terms, which it is not required to do;

if a license is available from a third party, we may have to pay substantial royalties or lump sum payments or grant cross-licenses to our patents or other proprietary rights to obtain that license; and

redesigning our products so they do not infringe, which may not be possible or may require substantial monetary expenditure and time.

Although we are not currently a party to any legal proceedings relating to our intellectual property, in the future, third parties may file claims asserting that our technologies or products infringe on their intellectual property. We cannot predict whether third parties will assert these claims against us or against the current or future licensors of technology licensed to us, or whether those claims will harm our business. If we are forced to defend against these claims, whether they are with or without any merit, whether they are resolved in favor of or against us or our licensors, we may face costly litigation and diversion of management's attention and resources. As a result of these disputes, we may have to develop costly non-infringing technology, or enter into licensing agreements. These agreements, if necessary, may be unavailable on terms acceptable to us, if at all, which could seriously harm our business or financial condition.

One or more third-party patents or patent applications may conflict with patent applications to which we have rights. Any such conflict may substantially reduce the coverage of any rights that may issue from the patent applications to which we have rights. If third parties file patent applications in technologies that also claim technology to which we have rights, we may have to participate in interference proceedings with



the U.S. Patent and Trademark Office, or USPTO, or non-U.S. patent regulatory authorities, as applicable, to determine priority of invention.

*We may become involved in lawsuits to protect enforce our patents or other intellectual property rights, which could be expensive, time-consuming and unsuccessful.*

Competitors may infringe our patents or other intellectual property rights. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming. To the extent such claims relate to patents held by the Purdue Research Foundation, it would have to file such an infringement lawsuit since we do not have the independent right to enforce the Purdue Research Foundation's intellectual property. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

Interference proceedings brought by the USPTO may be necessary to determine the priority of inventions with respect to our patents and patent applications or those of our current or future collaborators. An unfavorable outcome could require us to cease using the technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if a prevailing party does not offer us a license on terms that are acceptable to us. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distraction of our management and other employees. We may not be able to prevent, alone or with our collaborators, misappropriation of our proprietary rights, particularly in countries where the laws may not protect those rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential and proprietary 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. 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.

#### **Risks Related to this Offering and Ownership of Our Common Stock**

*The price of our common stock has been volatile and our shares may suffer a decline in value.*

We have experienced volatility in the trading price of our common stock. Since our initial public offering, the trading price of our common stock has ranged from \$7.00 per share on February 22, 2011 to \$14.80 per share on July 7, 2011. Factors that could cause volatility in the market price of our common stock include, but are not limited to the risk factors identified above as well as:

results from, and any delays in, our current or planned clinical trials, including PROCEED;

announcements of FDA non-approval of our product candidates, including EC145, or delays in FDA or other non-U.S. regulatory authority review processes;

FDA or other U.S. or non-U.S. regulatory actions affecting us or our industry;

litigation or public concern about the safety of our product candidates;

failure or discontinuation of any of our research or clinical trial programs;

delays in the commercialization of our product candidates;

our ability to effectively partner with collaborators to develop or sell our products;

market conditions in the pharmaceutical, biopharmaceutical and biotechnology sectors and issuance of new or changed securities analysts' reports or recommendations;

actual and anticipated fluctuations in our quarterly operating results;

developments or disputes concerning our intellectual property or other proprietary rights;

introduction of technological innovations or new products by us or our competitors;

issues in manufacturing our product candidates;

market acceptance of our product candidates;

deviations in our operating results from the estimates of securities analysts;

coverage and reimbursement policies of governments and other third-party payors;

sales of our common stock by our officers, directors or significant stockholders;

price and volume fluctuations in the overall stock market from time to time;

general economic conditions and trends;

major catastrophic events;

our ability to expand our operations, domestically and internationally, and the amount and timing of expenditures related to this expansion; and

additions or departures of key personnel.

In addition, the stock markets in general, and the markets for biopharmaceutical, pharmaceutical and biotechnology stocks in particular, have experienced extreme volatility that has been often unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our common stock. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business, which could result in the delays of our clinical trials or commercialization efforts.

***Sales of substantial amounts of our shares could adversely affect the market price of our common stock.***

## Edgar Filing: ENDOCYTE INC - Form S-1

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to raise capital by selling equity or equity-related securities in the future at a time and price that we deem appropriate.

Upon the closing of this offering, we will have 33,724,837 outstanding shares of common stock based on the number of shares outstanding on June 30, 2011 and no exercise of outstanding warrants or stock options or payouts of restricted stock units. Of these shares, the 14,375,000 shares sold in our initial public offering, the 63,223 shares issued upon exercise of stock options since February 9, 2011, the 4,841,610 shares sold in this offering, plus any additional shares sold upon exercise of the underwriters' over-allotment option, are or will be freely transferable without restriction under the Securities Act, unless they are held by our affiliates as that term is used under the Securities Act and the rules and regulations promulgated thereunder. The remaining 14,445,004 shares of common stock are restricted shares which, along with other shares held by our affiliates, may be sold in the public market only if registered or if they qualify for the exemption from registration under Rule 144 promulgated under the Securities Act or another exemption from registration.

The restricted shares and other shares held by our affiliates will be eligible for resale, subject to the provisions of Rule 144 upon the expiration of the February 2011 lockup agreement on August 3, 2011; however, we expect that a total of approximately 13,660,000 of these shares will remain subject to the 90-day lockup described below. These lockup periods are subject to extension under certain circumstances. At any time and without public notice, the underwriters may in their sole discretion release some or all of the securities from these lockup agreements prior to the expiration of the respective lockup periods.

We, all of our directors and executive officers, the Selling Stockholder and certain additional stockholders (non-affiliated investors who acquired 25,000 or more shares prior to our initial public offering) expect to agree that, without the prior written consent of RBC Capital Markets, LLC and Leerink Swann LLC on behalf of the underwriters, we and they will not, during the period ending 90 days after the date of this prospectus:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exercisable or exchangeable for our common stock; or

enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock;

whether any transaction described above is to be settled by delivery of shares of our common stock or such other securities, in cash or otherwise. This agreement is subject to certain exceptions, and is also subject to extension for up to an additional 34 days, as described under the heading Underwriting.

In addition, in the event that we propose to register any of our securities under the Securities Act of 1933, as amended, or the Securities Act, either for our own account or for the account of other securityholders, certain holders of our common stock and other registrable securities are entitled to notice of such registration and are entitled to include their common stock in such registration, subject to certain marketing and other limitations. The holders of at least 50 percent of these registrable securities have the right to require us, on not more than two occasions, to file a registration statement on Form S-1 under the Securities Act in order to register the resale of shares of their common stock, subject to our right, in certain circumstances, to defer such registrations. Further, these holders may require us to register the resale of all or a portion of their shares on a registration statement on Form S-3, subject to certain conditions and limitations. Finally, these holders have certain piggyback registration rights. If we propose to register any of our equity securities under the Securities Act other than pursuant to the registration rights noted above or specified excluded registrations, which include the registration of the shares issued and issuable under our equity incentive plans and shares sold in this offering, holders may require us to include all or a portion of their registrable securities in the registration and in any related underwritten offering.

As restrictions on resale end or if these securityholders exercise their registration rights, the market price of our common stock could decline if the holders of the restricted shares sell them or are perceived by the market as intending to sell them.

---

***Our existing stockholders have substantial control of our management and affairs, which could limit your ability to influence the outcome of key transactions, including a change of control.***

Our directors, executive officers and each of our stockholders who own greater than five percent of our outstanding common stock and their affiliates, in the aggregate, will beneficially own approximately 21.5 percent of the outstanding shares of our common stock after this offering. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might affect the market price of our common stock.

***Our management will have broad discretion over the use of the proceeds from this offering and may not apply the proceeds of this offering in ways that increase the value of your investment.***

Our management will have broad discretion to use the net proceeds we receive from this offering, and you will be relying on their judgment regarding the application of these proceeds. We expect to use the net proceeds from this offering as described under the heading Use of Proceeds. However, management may not apply the net proceeds of this offering in ways that increase the value of your investment.

***Provisions in our certificate of incorporation and bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.***

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that our stockholders may deem advantageous. These provisions include:

establishing a classified board so that not all members of our Board of Directors are elected at one time;

authorizing blank check preferred stock that our Board of Directors could issue to increase the number of outstanding shares to discourage a takeover attempt;

eliminating the ability of stockholders to call a special stockholder meeting;

eliminating the ability of stockholders to act by written consent;

being subject to provisions of Section 203 of the Delaware General Corporate Law regulating corporate takeovers;

providing that our Board of Directors is expressly authorized to make, alter or repeal our bylaws; and

establishing advance notice requirements for nominations for elections to our Board of Directors or for proposing other matters that can be acted upon by stockholders at stockholder meetings.

***If we fail to establish and maintain proper internal controls, our ability to produce accurate financial statements or comply with applicable regulations could be impaired.***

We will become subject to Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, beginning with our annual report for the year ending December 31, 2011. Section 404 requires

management to assess and report annually on the effectiveness of internal control over financial reporting and identify any material weaknesses in internal control over financial reporting. Compliance with Section 404 of the Sarbanes-Oxley Act also requires our independent registered public accounting firm to issue an attestation report as to management's assessment of the effectiveness of internal control over financial reporting. Prior to becoming a public company, we were not required to comply with Section 404 of the Sarbanes-Oxley Act, and as a result we have not yet evaluated our compliance with these provisions. We anticipate that compliance with Section 404 of the Sarbanes-Oxley Act will increase our legal, accounting and financial compliance costs, may make related activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources.

If we conclude that our internal control over financial reporting is not effective, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or their effect on our operations because there is presently no precedent available by which to measure compliance adequacy. As a consequence, we may not be able to remediate in time to meet our deadline for compliance with Section 404 of the Sarbanes-Oxley Act. Also, there can be no assurance that we will not identify one or more material weaknesses in our internal controls in connection with evaluating our compliance with Section 404 of the Sarbanes-Oxley Act. The presence of material weaknesses could result in financial statement errors which, in turn, could require us to restate our operating results.

If we are unable to conclude that we have effective internal control over financial reporting or if our independent auditors are unwilling or unable to provide us with an attestation report on the effectiveness of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act, investors may lose confidence in our operating results, our stock price could decline and we may be subject to litigation or regulatory enforcement actions. In addition, if we are unable to meet the requirements of Section 404 of the Sarbanes-Oxley Act, we may not be able to remain listed on The NASDAQ Global Market.

---

## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Statements in this prospectus and the information incorporated by reference in this prospectus or any prospectus supplement within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the progress and timing of clinical trials, the safety and efficacy of our product candidates, the goals of our development activities, estimates of the potential markets for our product candidates, estimates of the capacity of manufacturing and other facilities to support our product candidates, projected cash needs and our expected future revenues, operations and expenditures, our strategy, future operations, prospects, plans and objectives of management, that are not historical factual statements are forward-looking statements. We intend to have our forward-looking statements covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with those provisions. The words anticipate, believe, estimate, expect, intend, may, plan, predict, project, target, potential, will, would, could, should, or other comparable derivative terms or the negative of these terms or other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. In addition, we, through our officers, from time to time, make forward-looking oral and written public statements concerning our expected future operations, strategies, securities offerings, growth and investment opportunities, dispositions, capital structure changes, budgets and other developments. The forward-looking statements in this prospectus include, among other things, statements about:

our plans to seek conditional marketing authority for EC145 and EC20 in PROC from the EMA;

our ongoing phase 3 PROCEED trial;

our planned randomized phase 2 study of EC145 in NSCLC;

our ongoing and planned preclinical studies and clinical trials and our approach to seeking FDA approval of our product candidates;

the potential benefits of, and our ability to enter into, collaboration arrangements;

the timing and our ability to obtain and maintain regulatory approvals for our product candidates;

the rate and degree of market acceptance and clinical utility of our products;

our plans to leverage our linker system platform technology to discover and develop additional product candidates;

our ability to quickly and efficiently identify and develop product candidates;

our commercialization, marketing and manufacturing capabilities and strategy for EC145 and our other product candidates;

our intellectual property position;

our estimates regarding expenses, future revenues, capital requirements and needs for additional financing; and

## Edgar Filing: ENDOCYTE INC - Form S-1

other risks and uncertainties, including those described under the heading Risk Factors.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking



statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the Risk Factors section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part completely and with the understanding that our actual future results may be materially different from what we expect. The forward-looking statements in this prospectus represent our views as of the date of this prospectus. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this prospectus.

We obtained the industry, market and competitive position data in this prospectus from our own internal estimates and research as well as from industry and general publications and research surveys and trials conducted by third parties. While we believe that each of these trials and publications is reliable, we have not independently verified market and industry data from third-party sources. While we believe our internal company research is reliable and the market definitions we use are appropriate, neither such research nor these definitions have been verified by any independent source. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk.

---

## USE OF PROCEEDS

We estimate that the net proceeds from the sale of 4,000,000 shares of our common stock that we are selling in this offering will be approximately \$            million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters' over-allotment option is exercised in full, we estimate that we will receive net proceeds of approximately \$            million. We will not receive any proceeds from the sale of shares by the Selling Stockholder. The Selling Stockholder will bear the cost of all underwriting discounts and selling commissions applicable to the sale of common stock by the Selling Stockholder. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus.

We expect to use substantially all of the net proceeds from this offering through the third quarter of 2013 as follows:

Approximately \$15 million to prepare the filings for conditional marketing authorization for EC145 and EC20 and for pre-commercial activities in Europe;

Approximately \$15 million to conduct a randomized phase 2 trial of EC145 and EC20 for the treatment of second line non-small cell lung cancer;

Approximately \$10 million to advance our earlier stage phase 1 and preclinical pipeline; and

The balance for working capital and other general corporate purposes.

As of the date of this prospectus, we cannot predict with certainty all of the particular uses for the proceeds from this offering, or the amounts that we will actually spend on the uses set forth above. The amounts and timing of our actual expenditures will depend upon numerous factors, including the progress of our development and commercialization efforts, the status of and results from our clinical trials, whether or not we enter into strategic collaborations or partnerships, and our operating costs and expenditures. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering.

Pending use of the proceeds from this offering, we intend to invest the proceeds in a variety of capital preservation investments, including short-term, investment-grade and interest-bearing instruments.

Each \$1.00 increase (decrease) in the public offering price per share would increase (decrease) the net proceeds to us from this offering, after deducting underwriting discounts and commissions and our estimated offering expenses, by approximately \$            million, assuming that the number of shares we are offering, as set forth on the cover page of this prospectus, remains the same and that the underwriters do not exercise their over-allotment option. Depending on market conditions and other considerations at the time we price this offering, we may sell a greater or lesser number of shares than the number set forth on the cover page of this prospectus. An increase (decrease) of 1,000,000 in the number of shares we are offering would increase (decrease) the net proceeds to us from this offering, after deducting underwriting discounts and commissions and our estimated offering expenses, by approximately \$            million, assuming the public offering price per share remains the same. An increase of 1,000,000 in the number of shares we are offering, together with a \$1.00 increase in the public offering price per share, would increase the net proceeds to us from this offering, after deducting underwriting discounts and commissions and our estimated offering expenses, by approximately \$            million. A decrease of 1,000,000 in the number of shares we are offering, together with a \$1.00 decrease in the public offering price per share, would decrease the net proceeds to us from this offering, after deducting underwriting discounts and commissions and our estimated offering expenses, by approximately \$            million. This information is illustrative only, and following the pricing of this offering, we will update this information based on the actual public offering price and other terms of this offering.

We will not receive any proceeds from the shares sold by the Selling Stockholder.

## **DIVIDEND POLICY**

We have never declared or paid any dividends on our capital stock. We currently intend to retain all future earnings for the operation and expansion of our business and, therefore, we do not anticipate declaring or paying cash dividends in the foreseeable future. The payment of dividends will be at the discretion of our Board of Directors and will depend on our results of operations, capital requirements, financial condition, prospects, contractual arrangements, any limitations on payment of dividends present in our current and future debt agreements, and other factors that our Board of Directors may deem relevant. In addition, provisions contained in our current credit facility restrict our ability to pay dividends.

## CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of March 31, 2011, on an actual basis and an as adjusted basis to give effect to our sale of shares of common stock in this offering and receipt of our estimated net proceeds from this offering.

You should read this table together with the information under the headings Selected Financial Data, Use of Proceeds and Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere in this prospectus, as well as with the audited consolidated financial statements and related notes included in this prospectus.

	As of March 31, 2011	
	Actual	As Adjusted(1)
	(Unaudited, In Thousands)	
Cash, cash equivalents and short-term investments	\$ 94,447	\$
Senior debt	14,836	
Stockholders' equity (deficit):		
Common stock \$0.001 value; 100,000,000 shares authorized; 29,699,276 shares issued and outstanding, actual; and            shares issued and outstanding, as adjusted	30	
Additional paid-in capital	182,859	
Accumulated other comprehensive income	3	
Retained deficit	(105,258)	
Total stockholders' equity	77,634	
Total capitalization	\$ 92,470	\$

- (1) Each \$1.00 increase (decrease) in the public offering price per share would increase (decrease) each of cash and cash equivalents, additional paid in capital, total stockholders' equity and total capitalization by approximately \$            million, assuming that the number of shares we are offering, as set forth on the cover page of this prospectus, remains the same and that the underwriters do not exercise their over-allotment option. Depending on market conditions and other considerations at the time we price this offering, we may sell a greater or lesser number of shares than the number set forth on the cover page of this prospectus. An increase (decrease) of 1,000,000 in the number of shares we are offering would increase (decrease) each of cash and cash equivalents, additional paid in capital, total stockholders' equity and total capitalization by approximately \$            million, assuming the public offering price per share remains the same. An increase of 1,000,000 in the number of shares we are offering, together with a \$1.00 increase in the expected public offering price per share, would increase each of cash and cash equivalents, additional paid in capital, total stockholders' equity and total capitalization by approximately \$            million. A decrease of 1,000,000 in the number of shares we are offering, together with a \$1.00 decrease in the public offering price per share, would decrease each of cash and cash equivalents, additional paid in capital, total stockholders' equity and total capitalization by approximately \$            million. This information is illustrative only, and following the pricing of this offering, we will update this information based on the actual public offering price and other terms of this offering.

## DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock you pay in this offering and the net tangible book value per share of common stock immediately after completion of this offering.

At March 31, 2011, our net tangible book value was approximately \$77.6 million, or \$2.61 per share of common stock. Net tangible book value per share represents the amount of our tangible assets less our liabilities, divided by the shares of common stock outstanding at March 31, 2011. After giving effect to our sale of 4,000,000 shares of common stock in this offering at an assumed public offering price of \$            after deducting estimated underwriting discounts and commissions and estimated offering expenses, as adjusted net tangible book value at March 31, 2011 would have been \$            million, or \$            per share of common stock. This represents an immediate increase in adjusted net tangible book value of \$            per share to existing stockholders and an immediate dilution of \$(            ) per share to new investors purchasing shares of common stock in this offering.

The following table illustrates this dilution:

Assumed public offering price per share	\$
Net tangible book value per share as of March 31, 2011	2.61
Increase per share attributable to this offering	
As adjusted net tangible book value per share after this offering	
Dilution per share to investors in this offering	\$ (            )

This table is based on 29,699,276 shares of our common stock outstanding as of March 31, 2011, and assumes:

No exercise of 133,968 shares of common stock issuable upon exercise of outstanding warrants outstanding as of March 31, 2011 at an exercise price of \$8.12 per share (which number remained unchanged at June 30, 2011);

No exercise of stock options outstanding as of March 31, 2011 to purchase 2,073,654 shares of common stock at a weighted average exercise price of \$3.01 per share (which number increased to 2,812,872 stock options as of June 30, 2011 at a weighted exercise price of \$4.85 per share); and

No issuance of 1,383,907 shares of common stock reserved under the 2010 Equity Incentive Plan as of March 31, 2011 (which number decreased to 352,395 shares as of June 30, 2011, due to awards made after March 31, 2011, consisting of 767,500 stock options and 264,012 shares issuable for performance-conditioned restricted stock units, net of forfeitures), or any future increase in shares reserved for issuance under such plan.

Unless otherwise noted, the information in this prospectus reflects and assumes no exercise by the underwriters of their over-allotment option.

---

**MARKET PRICE OF COMMON STOCK**

Our common stock has been traded on The NASDAQ Global Market under the symbol ECYT since February 9, 2011. The following table sets forth the intra-day high and low per share bid price of our common stock as reported by The NASDAQ Global Market.

	<b>Low</b>	<b>High</b>
<b>2011</b>		
First Quarter (beginning February 4, 2011)	\$ 6.15	\$ 9.33
Second Quarter	\$ 8.25	\$ 14.50
Third Quarter (ending July 13, 2011)	\$ 13.77	\$ 14.80

On July 13, 2011, the reported last sale price of our common stock on The NASDAQ Global Market was \$14.00 and there were approximately 95 holders of record of our common stock on such date.

## SELECTED FINANCIAL DATA

You should read the following summary financial data together with our consolidated financial statements and the related notes included in this prospectus and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The statement of operations data for the years ended December 31, 2008, 2009 and 2010, and the balance sheet data as of December 31, 2009 and 2010, are derived from, and are qualified by reference to, our financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm, and that are included in this prospectus. The statement of operations data for the three months ended March 31, 2010 and 2011, and the balance sheet data as of March 31, 2011, are derived from, and are qualified by reference to, our unaudited financial statements that are included in this prospectus. The statement of operations data for the years ended December 31, 2006 and 2007, and the balance sheet data as of December 31, 2006, 2007 and 2008, are derived from our audited financial statements that are not included or incorporated by reference in this prospectus. Our historical results are not necessary indicative of the results that may be expected in the future.

	2006	2007	2008	2009	2010	Three Months Ended March 31	
						2010	2011
	(Unaudited)						
	(In Thousands, Except Share and Per Share Amounts)						
<b>Statement of operations data:</b>							
Total revenue	\$ 1,511	\$ 1,082	\$ 500	\$ 3,000	\$	\$	\$
<b>Operating expenses:</b>							
Research and development	6,479	11,305	13,323	14,804	14,561	3,899	4,439
General and administrative	3,277	4,401	4,786	3,934	6,039	1,476	2,074
Total operating expenses	9,756	15,706	18,109	18,738	20,600	5,375	6,513
<b>Loss from operations</b>	(8,245)	(14,624)	(17,609)	(15,738)	(20,600)	(5,375)	(6,513)
<b>Other income (expense):</b>							
Interest income	1,113	1,297	682	49	8	3	19
Interest expense	(33)	(25)	(1,579)	(1,436)	(1,065)	(249)	(698)
Other income (expense)	93	(306)	13	119	1,564	12	3
Total other income (expense)	1,173	966	(884)	(1,268)	(507)	(234)	(676)
<b>Net loss</b>	\$ (7,072)	\$ (13,658)	\$ (18,493)	\$ (17,006)	\$ (20,093)	\$ (5,609)	\$ (7,189)
Basic and diluted loss per share	\$ (8.28)	\$ (15.76)	\$ (20.54)	\$ (18.67)	\$ (21.77)	\$ (6.16)	\$ (0.43)
Shares used in computation of basic and diluted loss per share	853,870	866,517	900,127	911,066	923,007	911,066	16,907,823

	2006	2007	As of December 31, 2008	2009	2010	As of March 31, 2011 (Unaudited)
(In Thousands)						
<b>Balance sheet data:</b>						
Cash, cash equivalents and short-term investments	\$ 20,207	\$ 31,735	\$ 18,383	\$ 23,909	\$ 16,873	\$ 94,447
Working capital	19,817	29,737	11,486	15,476	12,377	86,343
Total assets	21,327	34,354	20,188	25,268	21,214	97,151
Total debt	370	9,952	14,384	8,977	14,804	14,836
Subordinated notes					9,529	
Total stockholders equity (deficit)	(28,159)	(41,318)	(59,412)	(76,058)	(96,911)	77,634



---

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

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes incorporated by reference in this prospectus and the information under the caption "Selected Financial Data" contained elsewhere in this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Overview

We are a biopharmaceutical company developing targeted therapies for the treatment of cancer and inflammatory diseases. We use our proprietary technology to create novel small molecule drug conjugates, or SMDCs, and companion imaging diagnostics. Our SMDCs actively target receptors that are over-expressed on diseased cells, relative to healthy cells. This targeted approach is designed to enable the treatment of patients with highly active drugs at greater doses, delivered more frequently, and over longer periods of time than would be possible with the untargeted drug alone. We are also developing companion imaging diagnostics for each of our SMDCs that are designed to identify the patients whose disease over-expresses the target of the therapy and who are therefore more likely to benefit from treatment. This combination of an SMDC with its companion imaging diagnostic is designed to personalize the treatment of patients by delivering effective therapy, selectively to diseased cells, in the patients most likely to benefit.

Our lead SMDC candidate, EC145, targets the folate receptor, which is frequently over-expressed on cancer cells. We have chosen platinum-resistant ovarian cancer, or PROC, a highly treatment-resistant disease, as our lead indication for development of EC145 because of the high unmet need in treating this patient population and the high percentage of ovarian cancer patients whose tumors over-express the targeted folate receptor. We recently conducted a multicenter, open-label randomized phase 2 clinical trial of EC145 in 149 women with PROC, referred to as the PRECEDENT trial. We received final PFS data in the fourth quarter of 2010 and based upon our findings from the PRECEDENT trial, we have begun enrollment of our PROCEED trial, a phase 3 registration trial in women with PROC. We have spent a significant amount of time and resources in 2010 on the PRECEDENT trial and as we shift focus to the PROCEED trial, we will be increasing the amount of time and resources, both financial and personnel, devoted to our EC145 program in PROC. We are currently preparing applications for conditional marketing authorization to be filed with the EMA for EC145 for the treatment of PROC and for EC20 for patient selection. These filings will be based on the results of our PRECEDENT trial. Our filings will be supported by a separate phase 2 single agent trial that we conducted. The PRECEDENT trial met its primary endpoint, as the combination of EC145 and PLD showed an improvement in the time to disease progression or death compared to PLD alone. This improvement was more substantial in patients who had been selected with the companion imaging diagnostic EC20.

In addition to PROC, we are pursuing clinical trials of EC145 in other indications, such as non-small cell lung cancer, and we also plan to advance other SMDCs and companion imaging diagnostics through development as preclinical and clinical trial results merit and funding permits.

On February 9, 2011, we completed our initial public offering of 14,375,000 shares of common stock, including 1,875,000 shares of common stock pursuant to the exercise of the over-allotment option by the underwriters in our initial public offering. Proceeds, net of underwriting discounts, commissions and other

transaction costs, were approximately \$78.2 million. Upon the completion of the offering, all of our outstanding Subordinated Convertible Promissory Notes, or Subordinated Notes, plus accrued and unpaid interest thereon were automatically converted into 2,335,823 shares of common stock using a conversion price of \$5.10 per share (85 percent of the original issue price of the shares sold in the initial public offering), all of our outstanding preferred stock was converted into an aggregate 11,747,563 shares of common stock, and all of the outstanding warrants to purchase our preferred stock were converted into warrants to purchase common stock.

We have never been profitable and have incurred significant net losses since our inception. As of March 31, 2011, we had a retained deficit of \$105.3 million. We expect to continue to incur significant and increasing operating losses for the next several years as we pursue the advancement of our SMDCs and companion imaging diagnostics through the research, development, regulatory and commercialization processes. We expect that our current cash position, including cash equivalents and short term investments is sufficient to fund our operations, including PROCEED, the phase 3 clinical trial of EC145 and EC20, through the availability of final primary PFS data from that study, which is anticipated to be in the second quarter of 2013. If we were to receive conditional marketing authorization in Europe of EC145 and EC20 prior to the completion of the study, this could impact the enrollment timeline as European sites would transition from clinical trials to commercial use. This could delay the availability of final data from the PROCEED trial. We may be able to mitigate this potential delay by adding clinical trial sites in locations where conditional marketing approval has not been granted. Our current operating plan does not include the initiation of other significant clinical studies beyond the PROCEED study. If we pursue other significant clinical studies or if the FDA requires us to undertake a second phase 3 clinical trial or obtain final OS data from PROCEED, we will require additional financing to through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements, to fund the additional activities. Such funding may not be available on favorable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategies.

## **Financial Overview**

### ***Revenue***

To date, we have generated no revenue from sales of our SMDCs or companion imaging diagnostics. All of our revenue has been derived from license fees, milestone payments and government grants.

In the future, we may generate revenue from a combination of direct sales of our SMDCs and companion imaging diagnostics, license fees, milestone payments and royalties in connection with strategic collaborations. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the timing and amount of license fees, achievement of performance-based milestones and other payments received under such collaborations, and the amount and timing of payments that we receive upon the sale of our SMDCs and companion imaging diagnostics, to the extent any are successfully commercialized. Based upon our SMDCs and companion imaging diagnostics currently in development and the stage of development, we do not expect to generate revenue from product sales until 2013 at the earliest. If we or our strategic partners fail to complete the development of our SMDCs and companion imaging diagnostics in a timely manner or obtain regulatory approval for them, our ability to generate future revenue, and our results of operations and financial position, would be materially adversely affected.

**Research and Development Expenses**

Research and development expenses consist of expenses incurred in connection with the discovery and development of our SMDCs and companion imaging diagnostics, including:

employee-related expenses, which include salaries and stock-based compensation expense;

expenses incurred under agreements with contract research organizations, investigative sites and consultants that conduct our clinical trials and a portion of our preclinical studies;

the cost of acquiring and manufacturing clinical trial materials;

license fees for and milestone payments related to in-licensed products and technology;

costs associated with non-clinical activities and regulatory approvals; and

research supplies.

We expense research and development costs as incurred. License fees and milestone payments related to in-licensed products and technology and research supplies are expensed if it is determined that they have no alternative future use.

Conducting a significant amount of research and development is central to our business model. Our SMDCs and companion imaging diagnostics in later stages of clinical development generally have higher development costs than those in earlier stages of development, primarily due to the increased size and duration of late stage clinical trials. We plan to increase our research and development expenses for the foreseeable future as we continue to enroll patients in the PROCEED trial for our most advanced SMDC, EC145, and to further advance our earlier-stage research and development projects.

Our internal resources, employees and infrastructure are not directly tied to any individual research project and are typically deployed across multiple projects. Through our clinical development programs, we are advancing our SMDCs and companion imaging diagnostics in parallel for multiple therapeutic indications and through our preclinical development programs we are seeking to develop potential SMDCs and companion imaging diagnostics for additional disease indications. The following table sets forth costs incurred on a program-specific basis for identified lead candidate SMDCs and companion imaging diagnostics, excluding personnel-related costs. Discovery Research includes such costs for projects where no lead candidate has yet been identified. All employee-related expenses for those employees working in research and development functions are included in Research and Development Payroll.

	2008	Year Ended December 31, 2009	2010	Three Months Ended March 31, 2011 (Unaudited)
	(In Thousands)			
EC145	\$ 5,075	\$ 6,495	\$ 6,844	\$ 2,418
EC20	106	298	322	294
EC0489	754	753	883	199
EC0225	1,224	643	418	
EC17	268	19		
Discovery Research	1,650	1,285	1,318	215
Research and Development Payroll	4,246	5,311	4,776	1,312

Edgar Filing: ENDOCYTE INC - Form S-1

Total Research and Development Expenses	\$ 13,323	\$ 14,804	\$	14,561	\$	4,438
---	-----------	-----------	----	--------	----	-------

The following table identifies the current status of our major research and development projects and our currently expected near-term milestone timing:

<b>Project</b>	<b>Status</b>	<b>Expected Near-Term Milestones</b>
EC0489	Phase 1	In 2011 complete phase 1 trial
EC145 and EC20	Phase 3	In the first quarter of 2012 submit applications to EMA for conditional marketing authorization
EC145 and EC20	Phase 3	In the first quarter of 2012 initiate phase 2 trial in second line NSCLC
EC0225	Phase 1	Evaluating future development options
EC17	Phase 2	Evaluating future development options

***General and Administrative Expenses***

General and administrative expenses consist principally of salaries and stock-based compensation for personnel in executive, finance, business development, legal and human resources functions. Other general and administrative expenses include employee benefits, facility, patent filing and prosecution costs, and professional service fees.

We anticipate that our general and administrative expenses will increase in the future primarily for the following reasons:

increased payroll and expanded infrastructure as a result of more advanced development activity and potential preparation for commercial operations;

increased expenses related to being a public company, including increased legal, accounting and investor relations fees, higher director compensation and increased insurance premiums; and

expenses related to the sales and marketing of our SMDCs and companion imaging diagnostics in anticipation of commercial launch before we receive regulatory approval.

***Other Income***

Other income consists primarily of gains or losses on sales of equipment, amounts related to the change in the fair value of our preferred stock warrant liability and income for a tax credit award.

***Interest Income and Interest Expense***

Interest income consists of interest earned on our cash, cash equivalents and short-term investments. The primary objective of our investment policy is capital preservation. Interest expense consists primarily of interest, amortization of debt discount and amortization of deferred financing costs associated with our previous credit facility with General Electric Capital Corporation, or GECC, and Oxford Finance Corporation, or Oxford, and our current facility with Mid Cap Financial, or Mid-Cap, and Silicon Valley Bank, or SVB.

***Critical Accounting Policies and Significant Judgments and Estimates***

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of

contingent assets and liabilities in our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and stock-based compensation. We base our estimates on historical experience, known trends and events and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our significant accounting policies are described in more detail in the notes to our audited financial statements included in this prospectus. We believe the following accounting policies to be most critical to the judgments and estimates used in preparation of our financial statements and have been reviewed and discussed with our audit committee.

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

To date, our revenues have been generated primarily through collaborative research, development and commercialization agreements. The terms of these collaborative agreements typically include payments to us of one or more of the following: nonrefundable, upfront license fees, milestone payments and royalties on future product sales.

When evaluating multiple element arrangements, we consider whether the components of the arrangement represent separate units of accounting. This evaluation requires subjective determinations and requires management to make judgments about the fair value of the individual elements and whether such elements are separable from the other aspects of the contractual relationship.

We typically have received upfront, nonrefundable payments when licensing our intellectual property in conjunction with a research and development agreement. Upfront payments, if they are nonrefundable and not contingent on further performance by us, are recognized when due pursuant to the terms of the underlying contract.

Our licensing agreements may also contain milestone payments. Revenues from milestones are recognized upon the achievement of the milestone event if the event is substantive, objectively determinable and represents an important point in the development life cycle of the SMDC. If not considered substantive, milestones are initially deferred and recognized over the remaining performance obligation.

We have not received any royalty revenues related to SMDC or companion imaging diagnostic sales to date.

Grant revenue is recognized when earned, which is in the period in which qualifying expenditures are incurred.

#### ***Accrued Clinical Expenses***

As part of the process of preparing our financial statements, we are required to estimate our accrued expenses. This process involves reviewing open contracts, identifying services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us monthly in arrears for services performed. We estimate our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time. We periodically confirm the accuracy of our estimates with the service providers and make

adjustments if necessary. Expense accruals related to clinical trial activity typically comprise the majority of these accruals. Examples of estimated expenses related to clinical trial activity include:

fees paid to contract research organizations in connection with clinical trials;

fees paid to investigative sites in connection with clinical trials; and

fees paid to vendors in connection with preclinical development activities.

We base our expenses related to clinical trials on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and contract research organizations that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under certain contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services are performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of the effort varies from our estimate, we adjust the accrual accordingly. Although our estimates in the past have not been materially different from amounts actually incurred, and we do not expect our estimates to be materially different from amounts actually incurred in the future, if our estimate of the status and timing of services performed differs from the actual status and timing of services performed we may report amounts that are too high or too low in any particular period. Based on our level of clinical trial expenses for the twelve months ended December 31, 2010, a five percent change in our estimate could result in an adjustment to our accrued clinical trial expense in future periods of approximately \$40,000.

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

Effective January 1, 2006, we adopted the recognition provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, *Compensation - Stock Compensation*, which we refer to as ASC 718, using the prospective transition method. This method required us, as a nonpublic company that had previously measured compensation expense using the minimum value method to continue to account for equity awards outstanding at the date of adoption in the same manner as they had been accounted for prior to adoption. For all awards granted, modified, or settled after the date of adoption, we recognized compensation expense based on the grant-date fair value of our common stock estimated in accordance with the provisions of ASC 718. Compensation expense was recognized over the vesting period of the award. Determining the amount of stock-based compensation to be recorded required us to develop estimates of the value of stock options as of the grant date. The calculated value of stock-based awards required that we make highly subjective assumptions. We used the Black-Scholes option pricing model to value our stock option awards. Prior to filing a registration statement in August 2010, our peer companies were determined to be early-stage venture capital backed companies that were not publicly traded. However, we concluded that it was not practical to estimate the volatility due to a lack of historical volatility and therefore we utilized an industry index as permitted under applicable accounting guidelines. We elected to use the calculated value provisions for purposes of determining our compensation expense. Our expected stock price volatility utilized the NASDAQ Biotechnology Index as a proxy for the volatility of our stock price. The NASDAQ Biotechnology Index was selected as it better approximated the volatility of our common stock over the life of the options being valued because we utilized multiple methodologies to value the options and multiple sets of peer companies in the various scenarios, including publicly-traded companies. The weighted-average expected life of the option is based on the contractual term of the option and historical terminations. We utilized a dividend yield of zero based on our historical experience and estimate of future dividend yields at the time. The risk-free interest rate used for each grant is based on the U.S. Treasury yield curve in effect at the time of grant for instruments with a similar expected life. Subsequent to filing the registration statement, all of our prospective grants will be valued under the fair value provision of ASC 718.

The value of our stock options was estimated at the grant date using the following assumptions:

	Year Ended December 31,			Three Months Ended
	2008	2009	2010	March 31, 2011 (Unaudited)
Volatility	34.87%	35.59%	36.26%	80.00%
Expected Term (in years)	10.0	10.0	9.8	6.1
Risk-Free Interest Rates	4.04%	3.67%	3.52%	2.43%
Dividend Yield	0.00%	0.00%	0.00%	0.00%

In accordance with ASC 718, we recognized stock-based compensation expense of approximately \$257,000, \$382,000 and \$524,000 for the year ended December 31, 2008, 2009 and 2010, respectively, and \$184,000 for the three months ended March 31, 2011. As of March 31, 2011, we had \$1.5 million in total unrecognized compensation expense, net of related forfeiture estimates, which we expect to recognize over a weighted-average period of approximately 1.4 years.

## Results of Operations

### *Comparison of Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2011*

	Three Months Ended		Increase/ (Decrease)	%
	2010	March 31, 2011		
(Unaudited, In Thousands)				
<b>Statement of operations data:</b>				
Revenue	\$	\$	\$	
Operating expenses:				
Research and development	3,899	4,439	540	14%
General and administrative	1,476	2,074	598	41%
Total operating expenses	5,375	6,513	1,138	21%
Loss from operations	(5,375)	(6,513)	1,138	21%
Interest income	3	19	16	533%
Interest expense	(249)	(698)	449	180%
Other income (expense), net	12	3	(9)	75%
Net loss	\$ (5,609)	\$ (7,189)	\$ 1,580	28%

#### *Revenue*

We did not recognize any revenue for the three months ended March 31, 2011 or the three months ended March 31, 2010.

#### *Research and Development*

The increase in research and development expense for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 was primarily due to the clinical and manufacturing activities related to the start up of the phase 3 EC145 clinical trial.

Included in research and development expense were stock-based compensation charges of \$98,000 and \$85,000 for the three months ended March 31, 2010 and 2011, respectively.





## Edgar Filing: ENDOCYTE INC - Form S-1

Research and development expenses include expenses of \$98,000 and \$0 for the three months ended 2010 and 2011, respectively, for company-funded research at Purdue University, the primary employer of our Chief Science Officer.

### *General and Administrative*

The increase in general and administrative expenses in the three months ended March 31, 2011 compared to the three months ended March 31, 2010 was primarily attributable to an increase in professional fees associated with being a public company and compensation expenses.

Included in general administrative expenses were stock-based compensation charges of \$26,000 and \$99,000 for the three months ended March 31, 2010 and 2011, respectively.

### *Interest Income*

The increase in interest income in the three months ended March 31, 2011 compared to the three months ended March 31, 2010 resulted from an increase in cash available for investment due to the proceeds from the initial public offering.

### *Interest Expense*

The increase in interest expense in the three months ended March 31, 2011 compared to the three months ended March 31, 2010 was due to the increase in the principal obligation outstanding under the credit facility we entered into in August 2010 with Mid-Cap and SVB and the interest payable on outstanding subordinated notes which were converted to common shares at the initial public offering.

### *Other Income, Net*

Other income decreased in 2011 compared to 2010 due to decreases in income recognized for the change in the fair value of the preferred stock warrant liability and gains on disposition of fixed assets.

### *Comparison of Year Ended December 31, 2009 and Year Ended December 31, 2010*

	Year Ended December 31,		Increase/ (Decreased)	%
	2009	2010		
(In Thousands)				
<b>Statement of operations data:</b>				
Revenue	\$ 3,000	\$	\$ (3,000)	(100)%
Operating expenses:				
Research and development	14,804	14,561	(243)	(2)%
General and administrative	3,934	6,039	2,105	54%
Total operating expenses	18,738	20,600	1,862	9%
Loss from operations	(15,738)	(20,600)	4,862	30%
Interest income	49	8	(41)	(84)%
Interest expense	(1,436)	(1,065)	(371)	(26)%
Other income, net	119	1,564	1,445	(1,214)%
Net loss	\$ (17,006)	\$ (20,093)	\$ 3,087	18%

For the year ended December 31, 2009, we earned revenue from a licensing agreement with BMS which was entered into on December 22, 2005. Under such license agreement, we granted BMS an exclusive worldwide license to develop and commercialize SMDCs using folate as the targeting ligand and epothilone as the drug payload. In 2009, BMS advanced this folate-epothilone SMDC, which BMS called BMS-753453, into a phase 2 clinical trial, which triggered a \$3.0 million milestone payment under the license. On June 3, 2010, BMS notified us of their intent to terminate the license. We believe BMS elected to terminate the license as a result of a change in its strategic focus. We received an aggregate of \$8.1 million from BMS from the fourth quarter 2005 to the third quarter of 2009 pursuant to this license.

#### *Research and Development*

The decrease in research and development expense in 2010 compared to 2009 was primarily the result of a decrease in payroll expense due to a shift of management focus from research and development activities to general and administrative functions during 2010. These decreases were partially offset by increased manufacturing costs incurred as preparation for the EC145 phase 3 clinical trial.

Included in research and development expense were stock-based compensation charges of \$332,000 and \$402,000 for the years ended December 31, 2009 and 2010, respectively.

Research and development expenses include expenses of \$352,000 and \$391,000 for the years ended 2009 and 2010, respectively, for company-funded research at Purdue University, the primary employer of our Chief Science Officer.

#### *General and Administrative*

The increase in general and administrative expenses in 2010 compared to 2009 was primarily attributable to increases in patent prosecution expenses associated with the growing portfolio and professional fees associated with various partnering and financing activities, including the preparation for our initial public offering.

Included in general administrative expenses were stock-based compensation charges of \$50,000 and \$122,000 for the years ended 2009 and 2010, respectively.

#### *Other Income, Net*

Other income increased in 2010 compared to 2009 primarily due to receiving an award of \$1.5 million under section 48D of the Code for Qualifying Therapeutic Discovery Projects. Other income, net in 2010 also includes a loss on extinguishment of debt of \$144,000, which was offset by an increase in income of \$219,000 related to the change in the fair value of our preferred stock warrant liability.

#### *Interest Income*

The decrease in interest income in 2010 compared to 2009 resulted from a decrease in balances available for investment due to the use of these funds for operations.

#### *Interest Expense*

The decrease in interest expense in 2010 compared to 2009 was due to the decrease in the outstanding and unpaid principal under our previous credit facility with GECC and Oxford, which was repaid in August 2010, partially offset by the outstanding and unpaid principal and interest incurred under our new credit facility.

**Comparison of Year Ended December 31, 2008 and Year Ended December 31, 2009**

	<b>Year Ended December 31,</b>		<b>Increase/ (Decrease)</b>	<b>%</b>
	<b>2008</b>	<b>2009</b>		
	<b>(In Thousands)</b>			
<b>Statement of operations data:</b>				
Revenue	\$ 500	\$ 3,000	\$ 2,500	500%
<b>Operating expenses:</b>				
Research and development	13,323	14,804	1,481	11%
General and administrative	4,786	3,934	(852)	(18)%
Total operating expenses	18,109	18,738	629	3%
Loss from operations	(17,609)	(15,738)	(1,871)	(11)%
Interest income	682	49	(633)	(93)%
Interest expense	(1,579)	(1,436)	(143)	(9)%
Other income, net	13	119	106	815%
Net loss	\$ (18,493)	\$ (17,006)	\$ (1,487)	(8)%

*Revenue*

For both years, revenue was from a license agreement with BMS. Revenue in 2008 of \$500,000 represented an annual maintenance payment associated with this licensing agreement. In 2009, BMS advanced a folate-epothilone SMDC, into a phase 2 clinical trial, which triggered a \$3.0 million milestone payment under the licensing agreement.

*Research and Development*

The increase in research and development expenses in 2009 compared to 2008 was primarily attributable to a \$1.5 million increase in clinical trial and product manufacturing expenses principally due to the PRECEDENT trial, which commenced enrollment in September 2008 and continued enrollment throughout 2009.

Included in research and development expense were stock-based compensation charges of \$197,000 and \$332,000 for the year ended December 31, 2008 and 2009, respectively.

Research and development expenses include expenses of \$394,000 and \$352,000 for the year ended December 31, 2008 and December 31, 2009, respectively, for company-funded research at Purdue University, the primary employer of our current Chief Science Officer.

*General and Administrative*

The decrease in general and administrative expenses in 2009 compared to 2008 was caused primarily by a \$470,000 shift of payroll expense from general and administrative expenses to research and development expenses resulting from a shift of management time from administrative functions to development activities. The remaining decrease was due to reduced recruiting and consulting fees compared to the prior year.

Included in general and administrative expenses were stock-based compensation charges of \$60,000 and \$50,000 for the year ended December 31, 2008 and 2009, respectively.

*Other Income, Net*

Other income in each period is primarily comprised of the change in the fair value of our preferred stock warrant liability. The increase was due primarily to the larger change in the fair value of our preferred stock warrant liability compared to the prior period.

*Interest Income*

The decrease in interest income in 2009 compared to 2008 was a result of a lower cash balance, a shift into more conservative investment vehicles and a decrease in interest rates from an average of 1.38 percent in 2008 to an average rate of 0.14 percent in 2009.

*Interest Expense*

The decrease in interest expense in 2009 compared to 2008 was due to the decrease in the outstanding and unpaid principal under our prior credit facility with GECC and Oxford.

**Liquidity and Capital Resources**

We have funded our operations principally through the private placement of equity securities, revenue from strategic collaborations, revenue from grants, loans, private equity and debt financings and, most recently, our initial public offering. As of March 31, 2011, we had cash, cash equivalents and short-term investments of \$94.4 million.

In August 2010, we obtained a \$15.0 million loan commitment from Mid-Cap and SVB to pay-off an existing loan commitment that was set to mature in March and July 2011. Upon execution of the agreement, we drew \$10.0 million in principal. In December 2010, we amended the term loan arrangement with Mid-Cap and SVB in order to access the remaining tranche of \$5.0 million.

On October 29, 2010, we were notified we had been awarded a total of \$1.5 million under section 48D of the Code for Qualifying Therapeutic Discovery Projects. In November 2010, we received \$1.4 million of this award, and the remaining \$0.1 million was received in February 2011. This was accounted for as other income.

In December 2010, we issued \$8.1 million of Subordinated Notes, and as of December 31, 2010, the Subordinated Notes were treated as share-settled debt under ASC 480-10-25-14 and were recorded at fair value. The Subordinated Notes accrued interest in kind at an annual rate of 10.0 percent. In January 2011, we issued an additional \$3.7 million of Subordinated Notes to certain accredited investors.

On February 9, 2011, we completed our initial public offering of 14,375,000 shares of common stock, including 1,875,000 shares of common stock pursuant to the exercise of the over-allotment option by the underwriters. Proceeds, net of underwriting discounts, commissions and other transaction costs, were \$78.2 million. Upon the completion of the offering, all outstanding Subordinated Notes, plus accrued and unpaid interest thereon were automatically converted into 2,335,823 shares of common stock using a conversion price of \$5.10 per share (85 percent of the original issue price of the shares sold in the initial public offering), all outstanding shares of preferred stock were converted into an aggregate 11,747,563 shares of common stock, and all outstanding warrants to purchase preferred stock were converted into warrants to purchase common stock.

We are using the funds received from the term loan with Mid-Cap and SVB, our Subordinated Notes and the initial public offering to fund our current operations and the phase 3 clinical trial of EC145.

The following table sets forth the primary sources and uses of cash for each of the periods set forth below:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2011</b>
	<b>(Unaudited, In Thousands)</b>	
Net cash provided by (used in) operating activities	\$ (5,573)	\$ (4,154)
Net cash provided by (used in) investing activities	2,347	(81,277)
Net cash provided by (used in) financing activities	(1,507)	81,776
Net decrease in cash and cash equivalents	\$ (4,733)	\$ (3,655)

### *Operating Activities*

The use of cash in each of the periods primarily resulted from our net losses adjusted for non-cash items and changes in operating assets and liabilities. The decrease in cash used for the three months ended March 31, 2010 compared to March 31, 2011 was primarily due to an increase in clinical trial expenses and general and administrative expenses for professional fees and an increase in compensation, offset by a decrease in prepaid expenses reclassified to equity and an increase in accounts payable.

### *Investing Activities*

The cash provided by (used in) investing activities for each of the periods was due primarily to the net result of purchases of short-term investments of \$12.3 million and \$111.3 million and maturities and sales of short-term investments of \$14.7 million and \$30.0 million, which was partially offset by capital expenditures for equipment of \$71,000 and \$18,000 for the three months ended March 31, 2010 and 2011, respectively.

### *Financing Activities*

The cash used by financing activities in the three months ended March 31, 2010 consisted of principal payments on our previous credit facility. The cash provided by financing activities in the three months ended March 31, 2011 primarily consisted of receiving proceeds of \$3.6 million for the issuance of Subordinated Notes and \$78.2 million net proceeds from our initial public offering.

### *Credit Facilities*

In August 2010, we entered into a \$15.0 million credit facility with Mid-Cap and SVB to pay-off the prior credit facility, to fund research and development, and for general corporate purposes. We drew down \$10.0 million in principal amount upon signing the agreement at a fixed 9.75 percent interest rate and drew down the remaining \$5.0 million in December 2010. Repayment of the principal will begin in April 2011 following a seven-month interest-only period, followed by a 30-month repayment of principal and interest. The loan is collateralized by a security interest in all of our assets, excluding intellectual property. The loan agreement includes customary covenants and may be accelerated upon the occurrence of any event of default in the loan agreement, including defects in collateral securing the loan, judgment defaults or any event or development that has a material adverse effect, as defined in the agreement. The failure of any preclinical study or clinical trial will not, in and of itself, constitute a material adverse effect. We are in compliance with all material covenants and other obligations in the loan agreement.

*Operating Capital Requirements*

Assuming we successfully obtain conditional marketing authorization in Europe, we anticipate commercializing our first product in late 2013 at the earliest. Therefore, we anticipate we will continue to generate significant losses for the next several years as we incur expenses to complete our clinical trial programs for EC145, build commercial capabilities, develop our pipeline and expand our corporate infrastructure. We will require additional funding through public or private equity or debt financings or other sources, such as strategic partnerships or licensing arrangements, to conduct additional analyses of the PROCEED study or to commercialize any of our SMDCs or companion imaging diagnostics.

If our available cash, cash equivalents and short-term investments are insufficient to satisfy our liquidity requirements, or if we develop additional opportunities to do so, we may seek to sell additional equity or debt securities, obtain additional credit facilities or refinance our current credit facility with Mid-Cap and SVB. The sale of additional equity and debt securities may result in additional dilution to our stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these securities may have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all. If we were unable to obtain additional financing, we may be required to reduce the scope of, delay or eliminate some or all of our planned research, development and commercialization activities, which could harm our business.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amounts of our working capital requirements. Our future funding requirements will depend on many factors, including but not limited to:

the number and characteristics of the SMDCs and companion imaging diagnostics we pursue;

the scope, progress, results and costs of researching and developing our SMDCs and companion imaging diagnostics and conducting preclinical and clinical trials;

the timing of, and the costs involved in, obtaining regulatory approvals for our SMDCs and companion imaging diagnostics;

the cost of commercialization activities if any of our SMDCs and companion imaging diagnostics are approved for sale, including marketing sales and distribution costs;

the cost of manufacturing any of our any SMDCs and companion imaging diagnostics we successfully commercialize;

our ability to establish and maintain strategic partnerships, licensing or other arrangements and the financial terms of such agreements;

the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and

the timing, receipt and amount of sales of, or royalties on, our SMDCs and companion imaging diagnostics, if any.

**Contractual Obligations and Commitments**

The following table summarizes our contractual obligations at March 31, 2011:

	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years
	(Unaudited, In Thousands)			
Short-term and long-term debt (including interest)	\$ 16,621	\$ 6,800	\$ 9,821	\$
Operating lease obligations	642	334	164	144
Other long term obligations	638		638	
Total contractual cash obligations	\$ 17,901	\$ 7,134	\$ 10,623	\$ 144

In addition, we have certain obligations under licensing agreements with third parties. In October 2007, we entered into an exclusive worldwide license with R&D Biopharmaceuticals to research, develop, and commercialize products containing conjugates of folate receptor-targeting compounds and tubulysin compounds. In February 2011, this licensing agreement was assigned by R&D Biopharmaceuticals to Trientlgasse. Under this license agreement, we may be required to make \$6.3 million in additional contingent payments upon the achievement of specific scientific, clinical and regulatory milestones, in addition to royalties upon commercial sales. Pursuant to our exclusive license agreement with Purdue Research Foundation relating to folate, we are obligated to pay an annual minimum royalty of \$12,500 until commercial sales commence, following which time the payment of royalties with market rates will commence. Pursuant to our exclusive license agreement with Purdue Research Foundation relating to PSMA, we are obligated to pay annual minimum payments of \$15,000 until commercial sales commence, following which time the payment of royalties with market rates will commence, along with an annual milestone payment of \$100,000. In addition, certain clinical and regulatory milestone payments of \$500,000 along with sales-based milestones related to third-party sales are also payable. We are also subject to penalties totaling \$300,000 if certain diligence milestones are not met. Future milestone payments in excess of \$500,000 may be waived by Purdue Research Foundation. There were no material obligations greater than five years. We do not anticipate incurring liabilities for EC145 royalty payments based on the estimated timing of when we may have commercial sales and the expiration of the applicable patents.

**Off-Balance Sheet Arrangements**

We do not have any transactions, obligations or relationships that could be considered material off-balance sheet arrangements.



---

## BUSINESS

### Overview

We are a biopharmaceutical company developing targeted therapies for the treatment of cancer and inflammatory diseases. We use our proprietary technology to create novel small molecule drug conjugates, or SMDCs, and companion imaging diagnostics. Our SMDCs actively target receptors that are over-expressed on diseased cells, relative to healthy cells. This targeted approach is designed to enable the treatment of patients with highly active drugs at greater doses, delivered more frequently, and over longer periods of time than would be possible with the untargeted drug alone. We are also developing companion imaging diagnostics for each of our SMDCs that are designed to identify the patients whose disease over-expresses the target of the therapy and who are therefore more likely to benefit from treatment. This combination of an SMDC with its companion imaging diagnostic is designed to personalize the treatment of patients by delivering effective therapy, selectively to diseased cells, in the patients most likely to benefit.

Our lead SMDC, EC145, targets the folate receptor, which is frequently over-expressed on cancer cells. We have chosen platinum-resistant ovarian cancer, or PROC, a highly treatment-resistant disease, as our lead indication for development of EC145 because of the high unmet need in treating this patient population and the high percentage of ovarian cancer patients whose tumors over-express the targeted folate receptor. In the final progression free survival, or PFS, analysis of PRECEDENT, our randomized phase 2 clinical trial in women with PROC, EC145 increased PFS from a median of 11.7 weeks to a median of 21.7 weeks, representing an 85 percent improvement over standard therapy ( $p=0.031$ ). We studied a subset of patients in which 100 percent of their target lesions over-expressed the folate receptor as determined by an EC20 scan, patients which we refer to as EC20(++). We treated these EC20(++) patients with a combination of EC145 and PLD and observed a median PFS of 24.0 weeks compared to a median of 6.6 weeks for patients receiving PLD alone, an improvement of over 260 percent. The hazard ratio was 0.381 ( $p=0.018$ ), or a reduction in the risk of progression of 61.9 percent.

We are preparing applications for conditional marketing authorization to be filed with the European Medicines Agency, or EMA, for our lead drug candidate EC145 for the treatment of PROC and its companion imaging diagnostic EC20 for patient selection. The filings will be based on the results of the randomized phase 2 PRECEDENT trial and supported by a phase 2 single agent EC145 clinical trial. This plan was based on consultation with the EMA, including a meeting with the Scientific Advice Working Party and written advice from the Committee for Medicinal Products for Human Use, or CHMP. We plan to seek conditional marketing authorization for treatment of patients with folate receptor positive PROC as selected by EC20. We expect to file both applications in the first quarter of 2012.

We began enrolling patients in PROCEED, our phase 3 registration trial for EC145 and EC20, in May 2011. PROCEED is a randomized, double-blinded trial of EC145 in combination with PLD compared to PLD plus placebo. The patient population, those with platinum-resistant ovarian cancer, will be the same as in the PRECEDENT trial, and the primary endpoint will be PFS in patients selected by EC20 as folate receptor positive. The trial will also be statistically powered for overall survival, or OS, as a secondary endpoint with projected enrollment of approximately 500 folate receptor positive patients. As part of the EC20 validation process, we will also enroll a modest number of folate receptor negative patients, but these patients will not be included in the primary efficacy analysis. The trial will be conducted in approximately 150 sites in the United States, Canada, and Europe. We expect final primary PFS data from this study in the second quarter of 2013.

We are also developing EC145 for use in non-small cell lung cancer, or NSCLC, where we have completed a phase 2 single-arm clinical trial in heavily pre-treated patients and observed a disease control rate, or DCR, of 57 percent at the eight week assessment in patients whose target tumors were all identified as over-expressing the folate receptor. This compares to historical DCRs ranging from 21 to 30 percent reported in other trials of approved therapies in less heavily pre-treated patients. In a subset of EC20(++)

patients who had received three or fewer prior therapies, the DCR was 70 percent. We also evaluated OS in EC20(++) patients (n=14) compared to patients in which at least one of the target lesions, but not all, over-expressed the folate receptor, which patients we refer to as EC20(+) (n=14). Median OS improved from 14.9 weeks for EC20(+) patients to 47.2 weeks for EC20(++) patients. The hazard ratio was 0.539, meaning EC20(++) patients were 46.1 percent less likely to die when compared to EC20(+) patients when receiving EC145 (p=0.101).

Based on results of our single-arm, single agent phase 2 clinical trial of EC145 in patients with heavily pre-treated NSCLC, we plan to initiate a randomized phase 2 trial in the first quarter of 2012. The trial is currently designed to enroll up to 200 patients with adenocarcinoma of the lung who have failed one prior line of therapy. Patients will be selected based on EC20 scan results and only EC20(++) patients will be included. The trial design is intended to evaluate the safety and efficacy of EC145 in second line NSCLC as a single agent and in combination with docetaxel, an FDA approved and commonly used second line chemotherapy. The study will have three arms: docetaxel alone; EC145 alone; and EC145 plus docetaxel. The details of the trial design and statistical plan are still in development and subject to revision. The primary outcome measure will be PFS with secondary measures of OS, tumor response and duration of response. Final PFS data is expected to be available by the third quarter of 2013.

Our imaging studies with our lead companion imaging diagnostic, EC20, and the analysis of tumor biopsies, have shown that the folate receptor is also over-expressed in a broad range of other solid tumors, including non-small cell lung, breast, colorectal, kidney, endometrial and other cancers. In our phase 2 single-arm clinical trial in heavily pre-treated non-small cell lung cancer patients, we observed a disease control rate, or DCR, of 57 percent at the eight week assessment in patients whose target tumors were all identified as over-expressing the folate receptor. This compares to historical DCR for approved therapies of 21 to 30 percent reported in studies of less heavily pre-treated patients. In a subset of patients in our study who had received three or fewer prior therapies and whose target tumors were all positive for the folate receptor, the DCR was 70 percent. We are using companion imaging diagnostics that target the folate receptor and other target receptors, including prostate-specific membrane antigen, or PSMA, to guide future development of our SMDCs in other oncology indications and inflammatory diseases.

We currently have no commercial products and we have not received regulatory approval for, nor have we generated commercial revenue from, any of our product candidates.

### **Our Strategy**

Our strategy is to develop and commercialize SMDCs to treat patients who suffer from a variety of cancers and inflammatory diseases that are not well addressed by currently available therapies. The critical components of our business strategy are to:

***Obtain marketing approval of our lead SMDC, EC145, for use in women with PROC.*** We plan to submit applications to the EMA for conditional marketing authorization of EC145 and EC20 in Europe in the first quarter of 2012. In addition, in May 2011 we initiated a randomized, controlled, double-blinded phase 3 registration trial, PROCEED, for the use of EC145 to treat women with PROC. If successful, we plan to submit the results of the PROCEED trial, supported by the results of our randomized phase 2 clinical trial, PRECEDENT, to the FDA as the basis for our application for marketing approval in the U.S.

***Expand use of EC145 to other indications.*** We are also developing EC145 for the treatment of NSCLC, and plan to conduct a controlled, randomized, phase 2 trial of EC145 in patients with folate receptor positive second line NSCLC. In this trial, we will use EC20 to select and enroll patients

whose cancer over-expresses the folate receptor and who we believe are therefore more likely to respond to EC145. Folate receptors are over-expressed on a wide variety of tumors, including breast, colorectal, kidney, endometrial and other cancers. We estimate, based on worldwide cancer incidence rates, our own imaging studies and analysis of tumor biopsies that there are over one million newly diagnosed cancer patients per year in the United States, Europe and Japan whose tumors over-express the folate receptor. We intend to use EC20 to identify additional cancer indications for EC145 and to identify individual patients within each cancer indication who may be most suitable for treatment.

***Build a pipeline of SMDCs by leveraging our technology platform.*** We believe that the modular approach of our technology platform will allow us to quickly and efficiently expand our pipeline of SMDC candidates featuring various combinations of our targeting ligands, linker systems and drug payloads. We currently have four SMDCs and two companion imaging diagnostics in clinical development.

***Develop companion imaging diagnostics for each of our therapies.*** We believe there is a significant opportunity to create targeted therapies where individual patients are selected based upon the use of non-invasive imaging diagnostic tools. Our companion imaging diagnostics may lower the risk of development of our SMDCs by allowing us to select for our clinical trials only those patients whose disease over-expresses the receptor targeted by our SMDCs. This benefit may, upon regulatory approval, extend to clinical practice by giving physicians the information they need to prescribe our SMDCs to patients who are most likely to respond to our therapy.

***Build commercial capabilities and partner to maximize the value of our SMDCs.*** To date, we have retained all worldwide commercial rights to our SMDCs. We intend to commercialize our oncology SMDCs in the United States through our own focused sales force that we would build in connection with such commercialization efforts, or by co-promoting these SMDCs in collaboration with one or more larger pharmaceutical companies that have established capabilities in commercializing cancer therapies. Outside of the United States, we will consider partnering with established international pharmaceutical companies to maximize the value of our pipeline. In the large inflammatory disease markets, we currently expect to out-license our SMDCs in order to mitigate their higher costs of development and commercialization.

#### ***Our Technology Platform***

Our technology platform has enabled us to develop multiple new SMDCs for a range of disease indications. Each SMDC is comprised of three modules: a targeting ligand, a linker and a drug payload. Our companion imaging diagnostics employ the same modular structure as our SMDCs replacing the drug payload with an imaging agent.

***Targeting Ligand.*** Our technology is founded on our high-affinity small molecule ligands that bind to over-expressed receptors on target cells, while largely avoiding healthy cells. We are developing a number of targeting ligands to address a broad range of cancers and inflammatory diseases.

**Linker System.** Our linker system attaches the targeting ligand to the drug payload or imaging agent. It is designed to be stable in the bloodstream, and to release the active drug from the targeting ligand when the SMDC is taken up by the diseased cell. The linker system can be customized for each SMDC and each companion imaging diagnostic to improve its pharmacologic properties.

**Drug Payload.** This module is the biologically active component of our SMDCs. The majority of our drug payloads are highly active molecules that are too toxic to be administered in their untargeted forms at therapeutic dose levels. We are using drug payloads in our SMDCs that were shown in our in vitro preclinical studies to be between 10,000 and 100,000 times more potent than traditional cancer cell-killing drugs such as cisplatin.

With our modular approach, we use a variety of different targeting ligands, linker systems and drug payloads to create a pipeline of novel SMDC candidates for clinical development. For example, our PSMA targeting technology uses a targeting ligand that specifically binds to a receptor over-expressed on the surface of prostate cancer cells. We have developed alternative linker systems that modulate the pharmacologic and biodistribution properties of our SMDCs. In addition, we have developed a linker system that allows us to conjugate multiple drug payloads to a single targeting ligand, thus offering the potential to simultaneously disrupt multiple pathways within cancer cells, forming a novel strategy for addressing drug resistance. We can also attach a wide variety of different drug payloads to our targeting ligands to address different disease indications. For example, we have SMDCs in preclinical development which incorporate proven anti-cancer and anti-inflammatory drug classes, such as microtubule destabilizers, DNA alkylators, proteasome inhibitors and mTOR inhibitors.

We own or have rights to 64 issued patents and 182 patent applications worldwide covering our core technology, SMDCs and companion imaging diagnostics. Our U.S. patent covering our core technology and our lead SMDC, EC145, expires in 2026, and our U.S. patents covering the EC145 companion imaging diagnostic, EC20, expire in 2024.

#### ***Companion Imaging Diagnostics***

Our technology allows us to create companion imaging diagnostics intended for use with each of our SMDCs. To create our companion imaging diagnostics, we replace the drug payload of the SMDC with an imaging agent that is easily seen with widely available nuclear imaging equipment. Because the targeting ligand found on the companion imaging diagnostic is identical to that found on the therapeutic SMDC, our companion imaging diagnostics allow us to obtain full-body real-time images of tumors that over-express the target for that particular SMDC. This is accomplished without requiring an invasive tissue biopsy or reliance on archived tissue samples.

The information provided by our companion imaging diagnostics is used throughout the development of every new SMDC. In both preclinical and clinical trials, a companion imaging diagnostic is used to validate targeting of our SMDC to specific tissues and cells. These companion imaging diagnostics also allow for the screening of large patient populations to select diseases where a high percentage of the patient population have tumors or diseased cells that over-express the molecular target. These companion imaging diagnostics may also enable us to expand the use of our SMDCs to cancer indications where the percentage of patients who over-express a given receptor target of interest may be relatively low. Upon regulatory approval, we believe companion imaging diagnostics, such as EC20, will help to identify patients who will most likely benefit from treatment with our SMDCs. As a result, use of our companion imaging diagnostics may broaden the commercial use of our SMDCs. In our phase 2 single-arm and phase 2 randomized PRECEDENT clinical trials with EC145, we have seen correlations between favorable therapeutic outcomes and uptake of our companion imaging diagnostic, which we believe supports this approach.

***Lead SMDC Candidate (EC145)***

Our lead SMDC candidate, EC145, consists of a highly cytotoxic anti-cancer drug, DAVLBH, joined by a linker system to the targeting ligand, folate. DAVLBH is a member of a class of proven anti-cancer drugs that destabilize microtubules within the cell, leading to cell death. As folate is required for cell division, many rapidly dividing cancer cell types have been found to over-express high-affinity folate receptors. In clinical trials using our companion imaging diagnostic, EC20, we found that ovarian, non-small cell lung, breast, colorectal, kidney, endometrial and other cancers over-express folate receptors. EC145 binds to these folate receptors on cancer cells with high-affinity and is internalized through a process known as endocytosis. Once EC145 is inside the cell, the linker system is cleaved, releasing the active drug payload within the cancer cell.

***Advanced Clinical Trials***

We have completed final PFS analysis for PRECEDENT, our randomized phase 2 clinical trial of 149 women with PROC. PRECEDENT is a randomized, controlled clinical trial in which patients received EC145 in combination with pegylated liposomal doxorubicin, or PLD, versus PLD alone. PLD is a current standard of care for PROC and is marketed in the United States under the brand name Doxil. The primary endpoint of the trial is PFS which refers to the period of time that begins when a patient enters the clinical trial and ends when either the patient dies, or the patient's cancer has grown by a RECIST-specified percentage or has spread to a new location in the body. RECIST refers to the response evaluation criteria in solid tumors, a set of published rules that define when the patient's disease shrinks, remains stable, or progresses. Historically, PROC has proven difficult to treat, and no approved therapy has extended either PFS or OS in a randomized clinical trial. OS refers to the period of time that begins when a patient enters the clinical trial and ends when the patient dies.

At PRECEDENT's final PFS analysis of 149 patients and 95 PFS events, combination therapy with EC145 and PLD increased median PFS by 85 percent over therapy with PLD alone. PFS increased from a median of 11.7 weeks in the PLD control arm to a median of 21.7 weeks in the EC145 and PLD combination therapy arm ( $p=0.031$ ). The hazard ratio was 0.626, meaning patients receiving EC145 were 37.4 percent less likely to have died or have their cancer progress compared to patients receiving only PLD.

**Kaplan-Meier curve for PFS in PRECEDENT**

This observed improvement in PFS was provided in the context of low additional toxicity over that seen in patients receiving PLD alone. There was no statistically significant difference in adverse events in the combination arm of the PRECEDENT trial compared with the control arm ( $p=0.210$ ). In addition, although PRECEDENT is not powered to demonstrate an improvement in OS, the analysis at the time of final PFS data suggests an early positive trend in OS with 81 percent of patients treated with EC145 and PLD alive at six months versus 72 percent of patients alive at six months when treated with PLD alone. The OS data set has a 66 percent censoring rate, includes only 50 events and is not considered mature. We currently expect that we will receive final OS data from the PRECEDENT trial by the first quarter of 2012.

The predictive power of our EC20 companion imaging diagnostic was also evaluated in the PRECEDENT trial. In an analysis of EC20(++) patients, an increased improvement in PFS was observed. In this subgroup of 38 patients, PFS improved from a median of 6.6 weeks for patients receiving PLD alone to a median of 24.0 weeks for patients receiving the combination of EC145 and PLD, an improvement of over 260 percent. The hazard ratio was 0.381 ( $p=0.018$ ), or a reduction in the risk of progression of 61.9 percent.

In May 2011, we commenced enrollment of our PROCEED phase 3 registration trial of EC145 for the treatment of women with PROC. PROCEED shares the same fundamental design characteristics of the PRECEDENT trial, except that it is a double-blinded trial, it measures PFS based on radiological progression alone without including clinical progression, and it will be powered for an OS analysis with planned enrollment of approximately 500 folate receptor positive patients. As part of the EC20 validation process, we will also enroll a modest number of folate receptor negative patients, but these patients will not be included in the primary efficacy analysis. The primary endpoint, 2 to 1 randomization, dose and schedule are the same as those used in the PRECEDENT trial. In contrast to PRECEDENT, the PLD control arm in PROCEED will include a placebo in order to blind the study, which will be dosed on the same schedule as EC145. As was the case with the PRECEDENT trial, PROCEED's primary endpoint is PFS.

Patients in the PROCEED trial are being imaged with EC20 prior to treatment. In our clinical trials that incorporated EC20 to date, we saw that approximately 80 percent of ovarian cancer patients over-express the folate receptor. In contrast to our phase 2 PRECEDENT trial, which enrolled EC20(-), EC20(+) and EC20(++) patients, the phase 3 PROCEED trial will enroll, but will not include in the primary efficacy analysis EC20(-) patients, a subset of patients who received no benefit from EC145 in PRECEDENT. PROCEED also includes co-primary PFS endpoints that give the trial two opportunities for a positive result. The first co-primary endpoint is for the full study population defined as patients with at least one EC20 positive lesion, which includes both EC20(+) and EC20(++) patients. The second co-primary endpoint is based on the EC20(++) subgroup alone, patients who have 100 percent positive lesions based on an EC20 scan.

PROCEED is powered to demonstrate a minimum 43 percent improvement in median PFS and a hazard ratio of 0.70 in the EC20(+) and EC20(++) patient population, which compares to a 225 percent improvement in median PFS and a hazard ratio 0.547 observed in PRECEDENT. PROCEED is also powered to demonstrate a minimum 38 percent improvement in the secondary endpoint of median OS.

The table below compares the design characteristics of the PROCEED and PRECEDENT trials.

	PRECEDENT	PROCEED
Number of Patients	149	Approximately 500*
Clinical Sites	65	Approximately 150
Patient Population	Platinum-resistant ovarian cancer	
Blinding	Open-label	Double-blinded
Treatment Arm	EC145 and PLD	
Control Arm	PLD	PLD and Placebo
Primary Endpoint	PFS (radiologic and clinical)	PFS (radiologic only)
Powered for OS	No	Yes
EC145 Dose	2.5 mg intravenous, 3 times per week in weeks 1 and 3, on a 28 day cycle	
PLD Dose	50 mg/m(2) intravenous on day 1, on a 28 day cycle	
EC20(++) and EC20(+) Hazard Ratio	0.547 (actual)	0.700
EC20(++) Hazard Ratio	0.381 (actual)	0.560
Cross-Over	Not allowed	
EC20 Scan	Enrolled regardless of scan results	EC20(-) excluded

\* Excludes a modest number of folate receptor negative patients who will be enrolled, but not included in the primary efficacy analysis of the trial.

#### *Regulatory Strategy*

During the second quarter of 2011, we announced our plan to file applications with the EMA for conditional marketing authorization for our lead drug candidate EC145 for the treatment of PROC and its companion imaging diagnostic EC20 for patient selection. The filings will be based on the results of the randomized phase 2 PRECEDENT trial and supported by a phase 2 single agent EC145 clinical trial. This plan was based on consultation with the EMA, including a meeting with the Scientific Advice Working Party, and written advice from the Committee for Medicinal Products for Human Use, or CHMP. We plan to seek conditional marketing authorization for treatment of patients with folate receptor positive PROC as selected by EC20. We expect to file both applications in the first quarter of 2012.

In addition to data already available from the phase 2 trials, we plan on including additional analyses of the PRECEDENT trial which have not yet been completed. These include, but may not be limited to, the following data:

**EC20 validation:** We will conduct an inter-reader analysis that will determine the reliability of EC20. Two independent radiologists will read images from the PRECEDENT study and we will measure the agreement between the two readers. This will provide evidence supporting the reliability of the EC20 scan process to consistently classify patients.

**Blinded assessment of CT scans:** Results from the PRECEDENT trial published to date have been based on analyses of CT scans by investigators who were not blinded to the treatment arm or EC20 scan status. In connection with the EMA applications, radiologists blinded to the patients' EC20 scan results and their treatment arm will perform an independent assessment of the CT scans used to measure progression of disease in the PRECEDENT trial.

**Overall survival:** We will include the final OS analysis from the PRECEDENT trial. In the U.S., if PROCEED meets either primary endpoint with limited additional toxicity over the PLD control arm, we intend to file a new drug application, or NDA, for EC145 with the U.S. Food and Drug

Administration, or FDA, for use of EC145 in combination with PLD in EC20(+) and EC20(++) patients with PROC or in EC20(++) patients with PROC. The PROCEED trial will also serve as the confirmatory trial for the potential conditional marketing authorization in Europe.

The FDA has stated that PROCEED must provide evidence of persuasive and robust statistically significant clinical benefit. If we fail to demonstrate a benefit of this magnitude, we would expect that the FDA would require us to conduct a second phase 3 clinical trial in order to file an NDA and receive marketing approval of EC145 for the treatment of PROC. In addition, the results of PROCEED may not yield safety and efficacy results sufficient to be approved by the FDA for commercial sale.

#### *EC145 in Lung Cancer*

Our second indication with EC145 is second line NSCLC. Lung cancer is the leading cause of cancer-related death worldwide and an area of high unmet medical need. Although several therapies are commercially available for the treatment of first and second line NSCLC, ultimately, in most patients the therapy fails and their cancer grows. In our clinical trials that incorporated EC20, approximately 80 percent of NSCLC patients over-express the folate receptor. As a result, we believe NSCLC is also an attractive indication for EC145 development. In a phase 2 single-arm trial in NSCLC patients who had at least one tumor that over-expressed the folate receptor, EC145 met the primary endpoint by demonstrating clinical benefit. At the eight week assessment of the patients, the DCR was 57 percent in the patients whose target tumors were all identified as over-expressing the folate receptor. This compares to historical DCRs ranging from 21 to 30 percent reported in other trials of approved therapies in less heavily pre-treated patients. In a subset of patients who had received three or fewer prior therapies and whose target tumors were all positive for the folate receptor, the DCR was 70 percent. DCR is the percentage of patients with complete response, partial response or stable disease, which has been shown to correlate with OS in NSCLC.

We also evaluated OS in EC20(++) patients (n=14) compared to patients in which at least one of the target lesions, but not all, over-expressed the folate receptor, such patients we refer to as EC20(+) (n=14). Median OS improved from 14.9 weeks for EC20(+) patients to 47.2 weeks for EC20(++) patients. The hazard ratio was 0.539, meaning EC20(++) patients were 46.1 percent less likely to die when compared to EC20(+) patients when receiving EC145 (p=0.101).

Based on results of our single-arm, single agent phase 2 clinical trial of EC145 in patients with heavily pre-treated NSCLC, we plan to initiate a randomized phase 2 trial in the first quarter of 2012. The trial is currently designed to enroll up to 200 patients with adenocarcinoma of the lung who have failed one prior line of therapy. Patients will be selected based on EC20 scan results and only EC20(++) patients will be included. The trial design is intended to evaluate the safety and efficacy of EC145 in second line NSCLC as a single agent and in combination with docetaxel, an FDA approved and commonly used second line chemotherapy. The study will have three arms: docetaxel alone; EC145 alone; and EC145 plus docetaxel. The details of the trial design and statistical plan are still in development and subject to revision. The primary outcome measure will be PFS with secondary measures of OS, tumor response and duration of response. Final PFS data is expected to be available by the third quarter of 2013.

#### *Inflammatory Diseases*

Beyond cancer, we have discovered that activated macrophages, a type of white blood cell found at sites of acute and chronic inflammation, also over-express the folate receptor. Activated macrophages release a variety of mediators of inflammation that contribute to a broad range of diseases, such as



rheumatoid arthritis, osteoarthritis, inflammatory bowel disease and psoriasis. We have a number of SMDCs in preclinical development for autoimmune diseases that are designed to inhibit the production of pro-inflammatory cytokines by activated macrophages.

### **Our Small Molecule Drug Conjugate (SMDC) Technology**

Traditional cytotoxic cancer chemotherapies kill rapidly dividing cancer and normal cells in an indiscriminate manner, leading to significant toxicity in patients. The need for patients to recover from this toxicity can limit the ability to deliver effectively-dosed cancer therapy. In addition, cancer therapies for a given tumor type are generally selected based on observations of efficacy and toxicity in that patient population and not, in most cases, based on an understanding of the differences between tumors on a molecular level. In response to these limitations, a number of targeted therapies were developed to be more selective, including monoclonal antibody-based therapies. Due to their selectivity against certain cancers, antibody therapies have achieved tremendous therapeutic and financial success in recent years. According to Roche Holdings' publicly available information, the three largest cancer drugs in the world, Avastin, Herceptin and Rituxan, are monoclonal antibodies, with collective U.S. sales of \$7.3 billion in 2009.

For certain cancers, antibodies alone are not sufficiently effective to achieve meaningful clinical benefit. This limitation has led to the development of a new class of agents called antibody drug conjugates, or ADCs. ADCs are comprised of a monoclonal antibody, which is used to target the specific cancer, attached via a linker system to a cell-killing drug. In clinical trials ADCs have enabled the targeted delivery of highly active anti-cancer drugs, improving response rates in several cancer indications, with generally less toxicity than standard chemotherapy. However, ADCs also have limitations. First, larger molecules, like ADCs, do not penetrate dense solid tumors as efficiently as small molecules, and as a result, ADC efficacy may be compromised due to limited accessibility to the target cells. Second, the slow clearance of antibodies from a patient's bloodstream may lead to increased toxicity. The longer half-life of ADCs has also limited the development of antibody-based imaging diagnostics due to the poor image quality associated with the high background noise caused by ADCs remaining in a patient's bloodstream. Third, ADCs are biologic molecules that are costly and often complex to manufacture.

We believe our SMDC platform represents a novel approach, comparable to ADCs in its ability to deliver highly active drug payloads in a targeted manner, but also with a number of potential advantages:

***Small size to better penetrate solid tumors.*** We believe a key characteristic of our SMDCs is their ability to penetrate deeply into dense solid tumors. The targeting ligands for our SMDCs are approximately 300 times smaller in molecular weight than a typical antibody incorporated in ADCs. This may result in greater uptake and higher concentrations of these molecules within solid tumors.

***Rapid clearance for reduced toxicity.*** The circulating half-life of ADCs currently in development generally range from several hours to several days. In contrast, our SMDCs are engineered to provide rapid uptake in targeted cells and rapid clearance from the bloodstream with a half-life of approximately 20 minutes. As a result of this shorter half-life, we believe there is reduced risk that our SMDCs will release the unconjugated drug payload into the blood stream. In our phase 1 trial of EC145, only four of 410, or less than one percent, of the blood samples analyzed had quantifiable levels of the unconjugated drug payload, and all four of these positive samples had concentrations near the lowest level of detection, and at a level where no significant toxicity was found.

***Companion imaging diagnostics for targeted therapy.*** A companion imaging diagnostic can be created for each of our SMDCs. Because of the modular nature of our SMDC technology, the drug payload can be replaced with a radioisotope imaging agent, such as technetium-99m, or Tc-99m, that we employ in EC20, to create a companion imaging diagnostic designed to target the same diseased

cells as the SMDC. The companion imaging diagnostic is intended to allow for real-time, full-body assessment of the receptor target without requiring an invasive tissue biopsy. Using full-body imaging, the receptor expression can be measured in every tumor and monitored throughout treatment. In our clinical trials that combined EC145 with EC20, we have seen correlations between favorable therapeutic outcomes and increased uptake of EC20.

***Cost-effective and simple to manufacture.*** Given the increasing pressure on drug pricing posed by payors, costs of development and manufacturing are increasingly important. Our SMDCs are relatively simple to manufacture and do not have the complexity and expense of biological molecules, like antibodies and ADCs.

#### **SMDC Pipeline**

We have a pipeline of multiple SMDCs and companion imaging diagnostics that are in varying stages of clinical and preclinical development, all of which use our platform SMDC targeting technology. A summary of our most advanced development pipeline SMDCs and companion imaging diagnostics are as follows:

#### ***EC145: Folate Receptor Targeted Therapy***

EC145 is designed to deliver a highly cytotoxic drug payload directly to folate receptors that are over-expressed on cancer cells, with low toxicity to healthy cells. EC145 consists of a targeting ligand, folate, conjugated via a linker system to an anti-cancer drug payload, DAVLBH. DAVLBH is derived from a proven class of anti-cancer drugs and is a potent destabilizer of microtubules. Since microtubules are critical for the separation of chromosomes during cell division, disruption of this microtubule system with DAVLBH promotes cell death.

### **Folate Receptors in Cancer Cells**

Folate is a nutrient required by all living cells, and it is essential for cellular division. As depicted in the image below, folate enters human cells via two distinct transport systems, the reduced folate carrier pathway, or RFC, which has low affinity for folate and the folate receptor pathway, which has high-affinity for folate. The RFC is the predominant route by which normal cells access folate circulating in the body. The RFC is a transport protein that is expressed on virtually all cells in the body. In contrast, rapidly dividing cancer cells over-express the high-affinity folate receptor. The folate receptor captures folate from outside the cell and transports it inside by engulfing it within a vesicle called an endosome. Once internalized, the folate receptor releases the folate and is then recycled back to the cell surface where it resumes its function of capturing circulating folates.

### **Cellular Uptake of Folate**

The folate receptor is not significantly expressed on most normal tissues. Lung, brain, small intestine, kidney and activated macrophages are the normal tissues known to express the folate receptor. In the lung, brain and small intestine, the folate receptor does not face the bloodstream, thus these folate receptors are not accessible to our folate-targeted SMDCs. In the kidney, the folate receptor functions as a salvage receptor that captures folates and transports them back into the blood stream to prevent folate deficiency. Although our SMDCs are also shuttled from the urine back into the blood using this folate receptor-based system, the linker system remains stable during this re-absorptive process to prevent release of the drug payload within the kidney. As a result, we have not observed any SMDC-related kidney toxicities throughout our preclinical or clinical trials. Activated macrophages also express the folate receptor. SMDCs like EC145 target folate receptor-expressing activated macrophages; however, these types of cells are not rapidly dividing, and as a result, anti-cancer drug payloads that disrupt cellular division processes are inactive against this cell type.

Elevated expression of the folate receptor occurs in several cancer types, and may be associated with the more aggressive growth characteristics of cancer cells as compared to normal cells. We believe that cancer cells over-express the folate receptor as a mechanism to capture additional folate to support rapid cell growth. The graph below shows the percentage of patients with different cancer types that are known to

over-express the folate receptor. We estimate, based on worldwide cancer incidences combined with our own imaging studies that there are over one million newly diagnosed cancer patients per year in the United States, Europe and Japan whose tumors over-express the folate receptor.

#### **Folate Receptor Positive Cancers by Cancer Type**

Source: *American Cancer Society and Endocyte estimates based upon imaging studies and tissue biopsies.*

EC145 takes advantage of the natural process of enhanced uptake of folate by cancer cells via the folate receptor by linking an active drug to a folate targeting ligand to create a tumor-targeted SMDC. Following transit through the bloodstream and entry into tumor tissue, EC145 binds to the externally-oriented folate receptor with high-affinity. Endocytosis of EC145 entraps it within a vesicle. As shown in the image on the previous page, drug payload release occurs within that vesicular compartment. The other pathway for folate to be taken up into cells, the RFC, is highly specific to folate but will not readily take up EC145 into the cell due to its molecular structure. As a result, EC145 is highly specific to cancer cells that over-express the folate receptor compared with normal cells which express the RFC.

When tested preclinically as a single agent, EC145 therapy has been observed to eliminate human tumors in mice across multiple folate receptor positive tumor models, using regimens that caused little to no observable toxicity. In the same models, treatment at the maximum tolerated dose, or MTD, with the free drug, DAVLBH, generated only modest or temporary tumor responses, and always in association with substantial toxicity. In addition, EC145 therapy caused no anti-tumor responses in preclinical tumor models that did not express the folate receptor, thus confirming the SMDC's specificity to the target receptor.

EC145 has also been evaluated in preclinical models for activity in combination with several approved chemotherapeutic agents. For example, EC145 has shown significant anti-tumor responses in animals when dosed in combination with approved drugs, such as PLD, cisplatin, topotecan, bevacizumab, docetaxel,

carboplatin, erlotinib and paclitaxel protein-bound. The toxicity profile of EC145, particularly its lack of hematologic toxicity, makes this SMDC a good potential candidate for combination therapies.

If we are successful in obtaining regulatory approval for EC145 in second or third line therapies, we intend to explore combinations with other drugs, several of which are frequently used as first line therapies in a variety of tumors that over-express the folate receptor. First line therapy refers to initial cancer treatments, while second or third line therapies refer to subsequent treatments following disease progression.

### *Ovarian Cancer*

#### *Market Opportunity*

Ovarian cancer is a significant cause of patient morbidity, and is the leading cause of gynecologic cancer mortality in the United States. According to the American Cancer Society, approximately 21,500 new cases of ovarian cancer were reported in the United States in 2009. Of those ovarian cancer cases, approximately 50 percent of patients will eventually develop PROC. Mortality rates remain high, with nearly 15,000 deaths from ovarian cancer each year in the United States alone.

While the treatment of ovarian cancer depends on the stage of the disease, the initial therapy almost always involves surgical removal of the cancer from as many sites as possible followed by platinum-based chemotherapy. For women with advanced ovarian cancer who respond to initial platinum-based chemotherapy, most will eventually experience recurrence or progression of their cancer. Patients whose cancer recurs or progresses after initially responding to surgery and primary chemotherapy can be placed into one of two groups based on the time from completion of platinum therapy to disease recurrence or progression, referred to as the platinum-free interval:

***Platinum-sensitive.*** Women with platinum-sensitive ovarian cancer have a platinum-free interval of greater than six months. Upon disease recurrence or progression, these patients are believed to benefit from additional exposure to platinum-based chemotherapy.

***Platinum-resistant.*** Women with platinum-resistant ovarian cancer have a platinum-free interval of six months or less. These patients are much more resistant to standard chemotherapy and will typically receive PLD or topotecan or participate in a clinical trial. Overall response rate measured by RECIST, or ORR, for these subsequent therapies is in the range of 10 to 20 percent with median OS of approximately 11 to 12 months.

There are currently only two approved therapies for women with PROC, PLD and topotecan. In clinical trials, neither of these drugs has demonstrated a statistically significant increase in PFS or OS in this indication. The last drug approved in this patient population was PLD, which was granted accelerated approval in 1999 based on an ORR of 13.8 percent (n = 145). The n represents the total patient population utilized in the reported data. ORR refers to the sum of complete and partial tumor responses seen, divided by the total number of evaluated patients. More recently, phase 3 trials of gemcitabine, trabectedin, patupilone and phenoxodiol have shown no statistically significant benefit over PLD in terms of either PFS or OS in women with PROC.

We have chosen PROC as our lead indication for EC145 because of the large unmet need in treating this patient population, the high levels of over-expression of the folate receptor in this tumor type, the enhanced therapeutic effect EC145 had with PLD in preclinical studies, and the acceptable clinical safety profile seen to date with EC145, which may avoid increasing the toxicities seen with PLD. We chose to develop EC145 in conjunction with PLD because it is commonly used as a second line therapy and has a better safety profile than topotecan, the other approved second line therapy.

*Phase 1 Clinical Trial*

We completed a phase 1 safety and dose-finding trial in 32 patients designed to determine the MTD of EC145 in patients with a variety of different solid tumors. In the trial, we established a dose regimen of three times per week, every other week, at 2.5 mg per day, which was the MTD. This dose regimen showed preliminary signs of efficacy as a monotherapy in heavily pre-treated late-stage cancer patients with a variety of tumor types, including a partial tumor response and long-term disease stabilization in ovarian cancer (n=2) and long-term stabilization in other cancer types. This dose regimen was well tolerated. Toxicities most commonly seen in the trial were constipation, fatigue, nausea, vomiting, abdominal pain and anemia, many of which are observed in late-stage cancer patients. The primary dose-limiting toxicity for EC145 was a significant but spontaneously reversible constipation/ileus observed at doses above the MTD.

*Phase 2 Single-Arm Clinical Trial*

We have completed a phase 2 single-arm clinical trial designed to evaluate the safety and efficacy of EC145 in women with advanced epithelial ovarian, fallopian tube or primary peritoneal cancer. The primary objectives were to collect data on the clinical benefit of EC145 therapy, defined as the number of patients who received six or more cycles of therapy, to explore the safety of EC145 in this drug-resistant patient population, and to assess the degree to which patients who had at least one tumor that over-expressed the targeted folate receptor responded to therapy, thereby enabling us to better identify a target population in which to conduct a randomized clinical trial of EC145 in the future.

Prior to treatment with EC145, patients were scanned with EC20 to determine whether their tumors over-expressed the folate receptor. In addition to standard eligibility criteria, patients were required to have PROC or refractory ovarian cancer, meaning disease that did not respond or progressed during the most recent platinum-based chemotherapy, and at least a single RECIST-measurable tumor. EC145 was administered as a bolus dose three days per week, on weeks one and three of a four-week cycle. Forty-nine women, with a median age of 62 years, were enrolled into the trial. Participants had been heavily pre-treated prior to participation in the trial, having received a median of four prior chemotherapeutic regimens. All of these patients had advanced disease and most had a heavy tumor burden. Although the trial did not achieve the threshold for efficacy, the effectiveness of EC145 was also evaluated based on DCR and ORR. These analyses indicated that a subset of patients exhibited evidence of anti-tumor effect such as tumor shrinkage and disease stabilization, with low toxicity.

In the final analysis of the trial data, the DCR for the 45 eligible patients was 42.2 percent with two women achieving a partial response, and the ORR for the eligible patients was 5 percent. An additional analysis established that EC145 was more active in patients previously treated with less than four therapies resulting in a DCR of 60.0 percent and an ORR of 13.3 percent. Safety data indicated that EC145 was very well tolerated, with no Grade 4 drug-related toxicities. The most frequent Grade 3 drug-related toxicities were fatigue in 8.2 percent of the patients and constipation in 8.2 percent of the patients. In addition, the safety data indicated that EC145 did not produce overlapping toxicity with the existing second line therapeutic agents used, such as topotecan and PLD.

Each patient who was scanned with EC20 was given a score, computed by dividing the number of positive tumors by the total number of target tumors. For example, a patient with a total of four target tumors, two of which over-expressed the folate receptor, would have a patient score of 50 percent. Patients were divided into three groups based on their EC20 scores as follows:

the EC20(+++) group was characterized as having 100 percent of their tumors tested positive for the folate receptor;

the EC20(+) group score was 1 to 99 percent positive or at least one, but not all of their tumors tested positive for the folate receptor; and

the EC20(-) group score was 0 percent positive because none of their tumors tested positive for the folate receptor. Separate analyses were performed to assess the degree to which EC20(++) and EC20(+) patients responded to therapy with EC145. Of the 145 evaluable tumors, only tumors in EC20(++) and EC20(+) patients treated with EC145 showed tumor shrinkage of greater than 20 percent. No tumors of EC20(-) patients showed a decrease of greater than 20 percent. These results were statistically significant, indicating that EC20 uptake by tumors correlates with response to EC145 treatment (p=0.0022).

The ORR and DCR were calculated for each of the three groups. EC20(++) patients had the highest DCR, 57 percent, followed by EC20(+) at 36 percent and EC20(-) patients at 33 percent. In a subgroup analysis of less heavily pre-treated patients, those treated with three or fewer prior regimens, the DCR for the EC20(++) group was 86 percent versus 50 percent and zero percent in the EC20(+) and EC20(-) groups, respectively. Similarly, the ORR in the EC20(++) subgroup was the highest at 14 percent, while the ORR for the EC20(+) subgroup and for the EC20(-) subgroup was 13 percent and zero percent, respectively. Results from this trial indicate a potential correlation between EC20 binding levels and anti-tumor response at the level of the individual patient and the individual tumor.

*Platinum REsistant Ovarian Cancer Evaluation of Doxil and EC145 CombiNation Therapy (PRECEDENT): Randomized Phase 2 Clinical Trial in PROC*

PRECEDENT is a multicenter, open-label, randomized phase 2 clinical trial of 149 patients comparing EC145 and PLD in combination, versus PLD alone, in women with PROC. The trial completed enrollment in June 2010 and final PFS analysis of the data has been conducted and was presented at the annual meeting of the American Society of Clinical Oncology in June 2011.

We chose PFS as the primary endpoint of the trial as PFS is a clinically meaningful endpoint in this patient population and allows for a more rapid assessment of results than OS. PFS was measured based upon investigator assessment using both radiological measurements based on RECIST, as well as assessment of clinical progression. Secondary endpoints include OS, ORR and safety and tolerability of EC145 in combination with PLD. To minimize the potential for bias and to ensure the integrity of the OS measurement, cross-over was not allowed. In addition, the trial explored the correlation between therapeutic response and EC20 imaging results.

Eligible patients were randomized in a 2 to 1 ratio to either the EC145 and PLD arm or to the PLD alone arm. PLD was selected as the comparator because it is approved and widely used in PROC and EC145 in combination with PLD was more effective than PLD alone in our preclinical studies. Patients are dosed with EC145 three times per week every other week and PLD is administered once every 28 days in both population arms, consistent with the standard of care. All patients enrolled at clinical centers with nuclear imaging capabilities were scanned with our EC20 companion imaging diagnostic within 28 days prior to the initiation of treatment (113 patients).

PRECEDENT is a multicenter trial involving 65 sites in the United States, Canada and Poland. Patients were stratified based upon their geographic location, primary versus secondary platinum resistance and level of the tumor marker (CA-125). Most of the demographics and disease characteristics were well-balanced between the arms. There were two characteristics slightly imbalanced in the arms of the trial, both of which should have contributed to a poorer prognosis for patients receiving the combination of EC145 and PLD versus patients receiving PLD alone. Specifically, the number of patients with hepatic and pulmonary

metastases at enrollment were greater in the combination arm (38.0 percent) compared to the PLD alone arm (22.4 percent). Also, the median cumulative length of tumor at enrollment in the combination arm was 9.3 cm compared to 5.6 cm in the PLD alone arm.

A Data Safety Monitoring Board, or DSMB, monitored the trial and conducted multiple safety reviews and a pre-specified interim analysis. This interim analysis was prepared by an independent biostatistician and reviewed by the DSMB on February 26, 2010. The DSMB recommendation was to continue the trial to full accrual with no protocol modifications.

At PRECEDENT's final PFS analysis of 149 patients and 95 PFS events, we reported an 85 percent increase of median PFS from 11.7 weeks in the PLD arm to 21.7 weeks in the EC145 and PLD treatment arm ( $p=0.031$ ). The hazard ratio was 0.626, meaning patients receiving EC145 were 37.4 percent less likely to have died or have their cancer progress compared to patients receiving only PLD. The median PFS seen in the control arm was consistent with historical data in this disease setting. This benefit in PFS was provided in the context of low additional toxicity over the current standard of care. We believe that EC145 and PLD is the first combination to show a meaningful improvement in PFS over standard therapy for the treatment of PROC.

#### **Kaplan-Meier curve for PFS in PRECEDENT**

EC145's companion imaging diagnostic, EC20, was used to correlate folate receptor over-expression with EC145 efficacy in PROC. Patients in the PRECEDENT trial were imaged with EC20 prior to enrollment and target lesions were read to determine whether patients were EC20(++), EC20(+) or EC20(-). In the EC20(++) subgroup of 38 patients, patients whose target lesions all over-expressed the folate receptor, PFS improved from a median of 6.6 weeks for patients receiving PLD alone to a median of 24.0 weeks for patients receiving the combination of EC145 and PLD, an improvement of over 260 percent. The hazard ratio was 0.381 ( $p=0.018$ ) or a reduction in the risk of progression of 61.9 percent. In addition, the data also showed an early positive trend in OS, with 81 percent of patients receiving the combination of EC145 and PLD alive at 6 months versus 72 percent of patients receiving PLD alone. The OS data set has a 66 percent censoring rate, includes only 50 events and is not considered mature. We currently expect that we will receive final OS data from the PRECEDENT trial by the first quarter of 2012.



**Kaplan-Meier curve for OS in PRECEDENT**

We also examined other secondary endpoints, including ORR. The ORR at the initial scan was 28.0 percent in the treatment arm as compared to 16.3 percent in the control arm. Consistent with RECIST, the protocol required follow-up scans at least four weeks later to confirm responses. The ORR at the confirmatory scan was 18.0 percent in the treatment arm as compared to 12.2 percent in the control arm.

At the final PFS analysis, the combination therapy was generally well tolerated. The EC145 and PLD combination arm received a 62 percent greater cumulative dose of PLD because these patients remained in the trial for a longer duration due to improved PFS. Despite this higher cumulative dose of PLD in the combination arm, total drug-related adverse events and serious adverse events were similar between arms. Review of toxicity data indicate that the number of patients reporting at least one treatment-emergent drug-related serious adverse event resulting in discontinuation from the trial was 2.8 percent (n=3) for the EC145 and PLD combination arm versus 4.0 percent (n=2) for the PLD single agent arm of the trial. No patient in either arm was known to have died from drug-related adverse events while receiving treatment or within 30 days of receiving treatment. Toxicity levels in the combination arm are similar to historical levels of toxicity experienced in patients receiving PLD as a single agent.

**PRECEDENT Trial Grade 3-4 Toxicities(1)**

(At final PFS Analysis)

	<b>EC145 and PLD (n=107)</b>	<b>PLD (n=50)</b>
<b>Hematological Toxicities</b>		
Neutropenia < 1,000/mm <sup>3</sup>	13 (12.1%)	2 (4.0%)
Febrile neutropenia	1 (0.9%)	1 (2.0%)
Anemia < 8 g/dL	7 (6.5%)	2 (4.0%)
Thrombocytopenia < 50,000/mm <sup>3</sup>	2 (1.9%)	1 (2.0%)
Leukopenia < 2,000/mm <sup>3</sup>	18 (16.8%)	2 (4.0%)
Lymphopenia < 500/mm <sup>3</sup>	19 (17.8%)	9 (18.0%)
	<b>EC145 and PLD (n=107)</b>	<b>PLD (n=50)</b>
<b>Non-Hematological Toxicities</b>		
Stomatitis	6 (5.6%)	2 (4.0%)
PPE syndrome	12 (11.2%)	1 (2.0%)

- (1) Hematological toxicities are based on lab values regardless of causality. Non-hematological toxicities were drug-related toxicities occurring in five percent or more of patients in at least one arm of the trial.

---

*Trial for Women With Platinum Resistant Ovarian Cancer Evaluating EC145 in Combination with Doxil (PROCEED): Phase 3 Clinical Trial for Approval of EC145 in PROC*

The PROCEED trial is designed to support the approval of EC145 in combination with PLD for the treatment of women with PROC. PROCEED is a double-blinded, multicenter, international, randomized phase 3 clinical trial in approximately 500 folate receptor positive patients at approximately 150 sites comparing EC145 and PLD to placebo and PLD in women with PROC. As part of the EC20 validation process, we will also enroll a modest number of folate receptor negative patients, but these patients will not be included in the primary efficacy analysis. We initiated enrollment of the PROCEED trial in May 2011.

We designed our phase 3 registration trial following our end of phase 2 meeting with the FDA held on May 24, 2010. Fundamental design characteristics of the PROCEED trial closely match those of the PRECEDENT trial. The primary endpoint, dose and schedule, 2 to 1 randomization and no option for cross-over, are the same as those used in the PRECEDENT trial. The only significant design changes are that the phase 3 trial will utilize a placebo in order to double-blind the investigators and patients to which treatment arm they are on, the PFS endpoint will be based only on radiologic assessments with no clinical progression allowed, EC20(-) patients will be excluded, and the trial will be powered for OS as a secondary endpoint. In addition, we expect to add additional countries to those used in the PRECEDENT trial, which included the United States, Canada and Poland.

In the PRECEDENT trial, the EC20(++) subgroup received the most benefit from EC145 therapy, with a hazard ratio of 0.381 (p=0.018). Because this data indicates a strong correlation between EC20(++) scans and EC145 efficacy, the phase 3 PROCEED clinical trial will include co-primary PFS endpoints. The first primary PFS analysis will be based on all patients enrolled in the study, EC20(+) and EC20(++) patients, and if met would support approval for EC145 in PROC for patients who have at least one lesion that over-expresses the folate receptor or based on EC20 scan results. The second primary PFS endpoint, or co-primary endpoint, is based on the subset of patients that are EC20(++) and would support approval of EC145 and EC20 in PROC patients who are EC20(++). The co-primary design could allow for approval on either endpoint. We believe this design provides the greatest probability for approval and is consistent with the FDA's critical path initiative to develop personalized therapies. We intend to modify the PROCEED trial protocol to incorporate this co-primary endpoint.

The final primary PFS analysis will be conducted after 334 PFS events in the combined EC20(+) and EC20(++) patient population and 167 PFS events in the EC20(++) patient population, which we expect to occur by the second quarter of 2013, although the exact date will depend on a number of factors, including the rate of enrollment. It is estimated that 334 events will provide approximately 85 percent power to detect a 0.70 or lower hazard ratio in the EC20(+) and EC20(++) patient population or approximately a 43 percent improvement in median PFS.

The PROCEED trial is powered for OS analysis as a secondary endpoint. We believe that, in addition to the primary PFS analysis, the interim OS results will be part of the FDA review of our NDA for EC145 in women with PROC. We currently expect to have final OS data in late 2015 or early 2016. At the time of the final PFS analysis, PROCEED planned enrollment is approximately 500 folate receptor positive patients, which we estimate will provide 85 percent power to detect a hazard ratio of 0.72 or lower or approximately a 38 percent improvement in median OS.

The PROCEED trial is designed to meet the key elements that we believe, based on our end of phase 2 meeting, will be required by the FDA for approval of new drugs based on PFS in this patient population:

***Clinically meaningful improvement in PFS.*** The trial is designed to show approximately a 43 percent improvement in median PFS, which we believe is clinically meaningful in this patient

population, where there is a high unmet medical need and no approved drug has demonstrated a statistically significant improvement in median PFS or OS. Our PRECEDENT randomized phase 2 clinical trial showed a statistically significant PFS benefit that corresponds to approximately an 85 percent improvement in median PFS.

**Powered to evaluate OS.** The trial is powered to detect a 38 percent improvement in median OS. To ensure the integrity of the OS measurement, we do not allow cross-over between the trial arms.

**Blinded radiologic assessment of PFS.** The trial is double-blinded to minimize any occurrence of bias, and the PFS analysis will be based only on radiologic assessment. The trial includes a supportive PFS analysis based on a centralized blinded independent review confirmed by a centralized blinded independent review.

**Favorable risk/benefit analysis.** The final results of the phase 2 trial indicated a significant and clinically meaningful benefit in PFS in the context of manageable toxicity. No statistically significant safety differences were seen between EC145 and PLD versus PLD alone either in overall adverse events or serious adverse events. We believe that in this area of high unmet medical need, this is a favorable risk/benefit assessment, which we believe can be repeated in PROCEED.

### ***Non-Small Cell Lung Cancer***

#### *Market Opportunity*

Lung cancer is the number one cause of cancer deaths worldwide. According to the Surveillance Epidemiology and End Results Program of the National Cancer Institute, in 2010, approximately 178,000 patients in the United States were diagnosed with NSCLC and approximately 126,000 died of the disease. Although numerous drugs are available for the treatment of NSCLC patients, according to a study published in Lung Cancer in 2003, the disease of more than 75 percent of patients progresses in less than eight weeks following second line or third line therapy. These findings underscore the need for continued development of new therapeutics, especially for refractory and progressive disease. In our clinical trials that incorporated EC20 in approximately 60 patients, the tumors in approximately 80 percent of heavily pre-treated NSCLC patients over-expressed the folate receptor. As a result, we have investigated the use of EC145 for the treatment of NSCLC patients in our phase 2 single-arm trial in this indication.

#### *Clinical Trials in NSCLC: Phase 2 Single-Arm Clinical Trial*

We conducted a phase 2 single-arm trial of EC145 in 43 patients with NSCLC. Prior to treatment with EC145, patients were scanned with EC20 to determine whether their tumors over-expressed the folate receptor. Only EC20(++) and EC20(+) patients were eligible for the trial. In addition to standard eligibility criteria, patients were required to have a diagnosis of adenocarcinoma of the lung and to have at least a single RECIST-measurable tumor. There were no limits to the maximum number of prior therapies allowed in this patient population. EC145 was administered as a bolus dose of 1 mg per day five days per week, during weeks one through three and five through seven of the eight week induction period, followed by 2.5 mg per day, three days per week every other week thereafter as maintenance. CT scans were performed every eight weeks and adverse events were assessed using standard criteria.

The trial gathered data on efficacy, including DCR and ORR, to characterize the toxicity profile of EC145 in the target population. The trial was also designed to assess whether EC20 tumor scans that were positive for the over-expression of the folate receptor correlated with anti-tumor response. All participants in the trial were EC20(++) and EC20(+). The trial was conducted in a heavily pre-treated patient population, with a median age of 62 and a median of three prior chemotherapeutic regimens with a range of two to nine

treatments. Additional analysis confirmed that the group had large-volume disease with a median cumulative tumor length of 7.9 cm. The trial met the primary endpoint of clinical benefit, which was defined as more than 20.0 percent of the patients completing four months of therapy. Safety data for all 43 participants indicated that EC145 was well tolerated, with no Grade 4 drug-related toxicities. The most frequently observed drug-related Grade 3 toxicity was fatigue (4.7 percent).

At the eight week patient assessment, the disease control rate, or DCR, was 57 percent in the patients who had all of their target tumors identified as over-expressing the folate receptor. This compares to DCRs for approved therapies of 21 to 30 percent reported in trials of less heavily pre-treated patients. In a subset of only EC20(++) patients who had received three or fewer prior therapies, the DCR was 70 percent. DCR has been shown to correlate with OS in NSCLC.

	All Patients	EC20(++)	EC20(+)
EC145 (all patients)	34.5%	57.1%	14.3%
EC145 (three or fewer prior therapies)	42.9%	70.0%	20.0%
Historical benchmark (two or three prior therapies)	21% to 30%		

We also evaluated OS in EC20(++) patients (n=14) compared to EC20(+) patients (n=14). Median OS improved from 14.9 weeks for EC20(+) patients to 47.2 weeks for EC20(++) patients. The hazard ratio was 0.539, meaning EC20(++) patients were 46.1 percent less likely to die when compared to EC20(+) patients when receiving EC145 (p=0.101).

#### *NSCLC Development Plan*

Based on results of our single-arm, single agent phase 2 clinical trial of EC145 in patients with heavily pre-treated NSCLC, we plan to initiate a randomized phase 2 trial in the first quarter of 2012. The trial is currently designed to enroll up to 200 patients with adenocarcinoma of the lung who have failed one prior line of therapy. Patients will be selected based on EC20 scan results and only EC20(++) patients will be included. The trial design is intended to evaluate the safety and efficacy of EC145 in second line NSCLC as a single agent and in combination with docetaxel, an FDA approved and commonly used second line chemotherapy. The study will have three arms: docetaxel alone; EC145 alone; and EC145 plus docetaxel. The details of the trial design and statistical plan are still in development and subject to revision. The primary outcome measure will be PFS with secondary measures of OS, tumor response and duration of response. Final PFS data is expected to be available by the third quarter of 2013.

#### *EC20: Lead Companion Imaging Diagnostic for Folate-Targeted Therapies*

We believe the future of medicine includes not only safer and more effective drugs, but also the ability to identify the appropriate therapy for a particular patient. We are committed to this approach, which is commonly referred to as personalized medicine or predictive medicine.

Because of the modular nature of our SMDC technology, the drug payload can be replaced with a radioisotope imaging agent, such as Tc-99m, which we employ in EC20, to create a companion imaging diagnostic designed to target the same diseased cells as the SMDC. The companion imaging diagnostic allows for real-time, full-body assessment of the receptor target without requiring an invasive tissue biopsy. Using full-body imaging, the receptor expression can be measured in every tumor and monitored throughout treatment. As described earlier, our PROC and NSCLC clinical trials combining EC145 with its companion imaging diagnostic have shown correlations between favorable therapeutic outcomes and increased uptake of EC20.

EC20 is the companion imaging diagnostic for all of our SMDCs that target the folate receptor. EC20 is a conjugate of the targeting ligand folate and the radioisotope imaging agent Tc-99m. Following intravenous administration, EC20 rapidly binds to tumors that over-express the folate receptor, allowing the treating physician to distinguish between patients who are EC20(++), EC20(+) or EC20(-). EC20 enables high quality diagnostic scans one to two hours following its administration as a result of the quick clearance from the blood of EC20 not taken up by cells which over-express the folate receptor.

Potential key advantages of EC20 over tissue-based samples include:

minimally invasive (not requiring biopsy);

real-time assessment of tumor receptor expression (as opposed to analysis based on archived tissue);

greater sensitivity because EC20 binds to all forms of the folate receptor (tissue sample analysis may understate folate receptor expression by not recognizing all forms of the folate receptor);

greater specificity because EC20 distinguishes between those receptors accessible to folate in the blood and those not accessible (tissue sample analysis may overstate folate receptor expression); and

full-body evaluation (as opposed to samples of tumor which may or may not be indicative of all areas of disease).

#### *EC20 Development Plan*

In the U.S., EC20 is being developed under the FDA's published guidance regarding usage of imaging agents for therapeutic management of patients. Consistent with this guidance, our development strategy for EC20 will be to show that the presence of EC20 uptake in tumors is predictive of improved therapeutic outcomes resulting from treatment with EC145.

With an estimated incidence of over one million newly diagnosed cancer patients in the United States, Europe and Japan who have tumors that over-express the folate receptor, EC20 could, if approved, represent a substantial commercial opportunity for us as a screening diagnostic. Companion imaging diagnostics are an important part of our development and commercial plan, which may allow us not only to provide a targeted therapy, but also a truly personalized and more effective therapy. This could benefit patients, doctors and payors by allowing doctors to select only patients who are likely to benefit from our therapies.

We plan to file an NDA with the FDA for the separate approval of EC20 for use in women with PROC. We intend to use the data obtained from PROCEED for the basis of the filing of this NDA. However, there can be no assurance the FDA will not require additional clinical trials of EC20 prior to approval.

In Europe, we intend to file applications for conditional marketing authorization with the EMA in the first quarter of 2012 for the use of EC20 as a diagnostic agent to select patients most likely to respond to EC145. We will file EC20 and EC145 concurrently for the selection and treatment of folate receptor positive patients with platinum-resistant ovarian cancer. Prior to filing the application for EC20, we will conduct a validation study which will evaluate the consistency of independent reads of the EC20 scans.

### *Other Pipeline Programs*

#### *Folate Receptor Targeted Programs*

EC0489 is a conjugate that utilizes the same targeting ligand, folate, and the same drug payload, DAVLBH, as EC145, but it includes an alternative linker system. This alternative linker system yields a different biodistribution of the drug compared to EC145, which may allow for higher dosage of drug payload. EC0489 is currently in a phase 1 dose escalation trial evaluating the safety of the drug in patients with solid cancer tumors. To date, 51 patients have been treated with EC0489. This trial will also allow us to evaluate the utility of our alternative linker system technology and its potential for use in the construction of future SMDCs. Following the conclusion of the phase 1 trial, we will evaluate future development options for EC0489.

EC0225 is a conjugate of folate and two distinct and highly active drugs, DAVLBH and mitomycin-C. DAVLBH is a microtubule destabilizer and mitomycin-C is a DNA alkylator. These two drugs are attached to a single targeting ligand and are brought into the targeted cancer cell via endocytosis, at which point both drugs are concurrently released. The anticipated advantage of using two drugs is that the payload is doubled, which may increase the overall anti-cancer activity of the SMDC. Attaching drugs with different mechanisms of action may allow them to overcome drug resistance. The drug payloads within EC0225 utilize distinct mechanisms of action to kill target cancer cells, thus making this SMDC a targeted combination therapy within a single drug. EC0225 is currently being evaluated in an open-label phase 1 dose escalation trial to assess its safety in patients with solid tumors, and to determine the dose for future trials. To date, 66 patients have been treated with EC0225.

EC17 is a conjugate of folate and a hapten molecule. This SMDC also utilizes our folate targeting ligand, but instead of DAVLBH, EC17 incorporates hapten as the drug payload, and delivers this drug payload to the tumor surface. When bound to cancer cells, EC17 is designed to elicit an immunologic response from the host immune system in order to facilitate tumor-cell killing. We completed a phase 1 trial with EC17 during which the drug was administered safely with a confirmed anti-hapten antibody response and evidence of anti-tumor activity. We are currently evaluating future development options for EC17.

EC0531 is a conjugate of folate and a drug payload of tubulysin, a microtubule destabilizer that, in our in vitro models, showed approximately 100,000 times more potency than cisplatin. Tubulysin alone is too toxic to be used in patients rendering it impractical for therapeutic use. In contrast, our folate receptor-targeted tubulysin SMDC, EC0531, is curative in multiple xenograft models under conditions that produce no observable toxicities. We plan to initiate clinical trials of EC0531 as our lead follow-on folate receptor-targeted therapeutic candidate to EC145.

#### *Prostate Specific Membrane Antigen Targeting Programs*

Leveraging our ligand and linker system expertise that we have obtained from our folate SMDC programs, we recently introduced into clinical trials EC0652, a companion imaging diagnostic for a new class of SMDCs whose targeting ligand binds to PSMA. PSMA is a receptor target that is predominantly over-expressed on prostate cancer cells.

EC0652 is a conjugate of a proprietary PSMA targeting ligand and the imaging agent Tc-99m. EC0652 is used to support SMDCs that target PSMA. In preclinical studies, EC0652 was found to specifically bind to PSMA-expressing tumor cells and it allowed for the non-invasive, real-time assessment of functionally active and drug-accessible PSMA-expressing tumor cells. EC0652 is currently in early clinical trials to validate specificity and biodistribution of the targeting ligand. In addition, we are currently evaluating EC1069, an SMDC for prostate cancer therapy based on the PSMA targeting ligand.

### *Inflammatory Disease Programs*

During the clinical development of EC20, it was discovered that patients with active inflammatory conditions, such as arthritic knees, displayed areas of EC20 uptake in non-cancerous regions of the body. Based on this observation, we began to test preclinical models of rheumatoid arthritis and discovered that activated, but not resting, macrophages present within the inflamed joints over-expressed the folate receptor. Activated macrophages are a type of white blood cell involved in a variety of inflammatory diseases, and they are responsible for the release of pro-inflammatory molecules, such as tumor necrosis factor alpha, or TNF-alpha as well as other cytokines, into the body. Commercially available drugs such as etanercept and adalimumab, both designed to neutralize TNF-alpha biological activity, have proven to be effective for the treatment of a variety of inflammatory diseases. In 2009, these products generated \$9.0 billion in annual sales according to Amgen's and Abbott Laboratories' publicly available filings. Although effective in some patients, other patients may fail to respond to these costly biological products because the activated macrophages secrete a variety of pro-inflammatory agents, in addition to TNF-alpha, into the systemic circulation, which results in continuing inflammation, causing a decreased therapeutic effect.

Our strategy for treating chronic inflammatory disorders differs from these available drugs that neutralize specific secreted factors such as TNF-alpha because our technology targets the folate receptor over-expressed on activated macrophages, which we believe are the source of pro-inflammatory agents, like TNF-alpha. We are developing a new class of SMDCs designed to neutralize, or de-activate, the activated macrophage itself. Preclinical data suggests that our SMDC candidates may suppress the secretion of all mediators of inflammation. Our oncology class of SMDCs, such as EC145, will target folate receptor-expressing activated macrophages; however, these types of cells are not rapidly dividing, and as a result, anti-cancer drug payloads that would otherwise disrupt cellular division processes are inactive against this cell type.

Utilizing an identical strategy to that we applied in the development of our oncology programs, SMDCs designed for treating inflammation may be constructed with more potent forms of known, active drugs, and then used along with companion imaging diagnostics to provide personalized therapy. Using our folate receptor-targeted EC20 companion imaging diagnostic in both preclinical and clinical trials, we have identified a number of diseases involving activated macrophages that over-express the folate receptor, including rheumatoid arthritis, osteoarthritis, inflammatory bowel disease and psoriasis.

In our preclinical models of rheumatoid arthritis, SMDCs targeted to activated macrophages result in significant reduction in inflammation and prevention of bone destruction that often accompanies these diseases. For example, EC0746 is an SMDC constructed with the targeting ligand, folate, and an inhibitor of cellular metabolism, called aminopterin. We observed in preclinical models that EC0746 was safe and reduced inflammation more than the most commonly prescribed anti-inflammatory agent, methotrexate, and the anti-TNF-alpha agent, etanercept.

### **Competition**

The biotechnology and pharmaceutical industries are highly competitive. There are many pharmaceutical companies, biotechnology companies, public and private universities and research organizations actively engaged in the research and development of products that may be similar to our SMDCs. A number of multinational pharmaceutical companies and large biotechnology companies are pursuing the development of or are currently marketing pharmaceuticals that target ovarian cancer and NSCLC, or other oncology pathways on which we are focusing. It is possible that the number of companies seeking to develop products and therapies for the treatment of unmet needs in oncology will increase.

Many of our competitors, either alone or with their strategic partners, have substantially greater financial, technical and human resources than we do and significantly greater experience in the discovery

and development of drugs, obtaining FDA and other regulatory approvals of products and the commercialization of those products. Accordingly, our competitors may be more successful than we may be in obtaining approval for drugs and achieving widespread market acceptance. Our competitors' drugs may be more effective, or more effectively marketed and sold, than any drug we may commercialize and may render our product candidates obsolete or non-competitive before we can recover the expenses of developing and commercializing any of our product candidates. We anticipate that we will face intense and increasing competition as new drugs enter the market and advanced technologies become available.

Recent successes with targeted therapies in solid tumors, such as those found in colon, breast and lung cancers, have led to a marked increase in research and development in targeted treatments for cancer, including cancer of the ovary. We are aware of a number of companies that have ongoing programs to develop both small molecules and biologics to treat patients with ovarian cancer. Roche Holdings is currently testing bevacizumab in women with ovarian cancer, including a phase 3 clinical trial in women with PROC. Eisai Company is conducting advanced stage clinical trials of farletuzumab, a folate receptor-targeted antibody, in women with PROC and platinum-sensitive disease. Nektar Therapeutics, using its conjugate technology, is conducting a phase 2 clinical trial of NKTR-102 for use in patients with solid tumor malignancies, including PROC, colorectal, and breast cancers. Sunesis Pharmaceuticals conducted a phase 2 single-arm trial of voreloxin, an anti-cancer quinolone derivative, in a number of patient populations, including PROC. Sanofi-Aventis is conducting a phase 2 single-arm trial of its drug BSI-201, a PARP inhibitor currently in a number of patient populations, including ovarian cancer. Eli Lilly is conducting a phase 2 single-arm trial of its drug LY573636.

We believe that our ability to successfully compete will depend on, among other things:

our ability to design and successfully execute appropriate clinical trials;

our ability to recruit and enroll patients for our clinical trials;

the results of our clinical trials and the efficacy and safety of our SMDCs and companion imaging diagnostics;

the cost of treatment in relation to alternative therapies;

the speed at which we develop our SMDCs and companion imaging diagnostics;

achieving and maintaining compliance with regulatory requirements applicable to our business;

the timing and scope of regulatory approvals, including labeling;

adequate levels of reimbursement under private and governmental health insurance plans, including Medicare;

our ability to protect intellectual property rights related to our SMDCs and companion imaging diagnostics;

our ability to commercialize and market any of our products that may receive regulatory approval;

our ability to have our partners manufacture and sell commercial quantities of any approved SMDCs and companion imaging diagnostics to the market; and



acceptance of SMDCs and companion imaging diagnostics by physicians, other healthcare providers and patients.

In addition, the biopharmaceutical industry is characterized by rapid technological change. Our future will depend in large part on our ability to maintain a competitive position with respect to these technologies. Our competitors may render our technologies obsolete by advances in existing technological approaches or the development of new or different approaches, potentially eliminating the advantages in our drug discovery process that we believe we derive from our research approach and proprietary technologies. Also, because our research approach integrates many technologies, it may be difficult for us to stay abreast of the rapid changes in each technology. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Technological advances or products developed by our competitors may render our SMDCs or companion imaging diagnostics obsolete or less competitive.

### **Manufacturing**

To date, our SMDCs and companion imaging diagnostics have been manufactured in small quantities for preclinical studies and clinical trials by third-party manufacturers and we intend to continue to do so in the future. We do not own or operate manufacturing facilities for the production of clinical or commercial quantities of our SMDC candidates. We currently have no plans to build our own clinical or commercial scale manufacturing capabilities. To meet our projected needs for commercial manufacturing, third parties with whom we currently work will need to increase their scale of production or we will need to secure alternate suppliers. While individual contract manufacturers have demonstrated the capability to produce quantities of our SMDCs sufficient to support our ongoing clinical trials for EC145 and other SMDCs, we continue to engage alternative suppliers to provide supply in the event of a failure to meet demand on the part of a single contract manufacturer. In addition, the linker system for EC145 is obtained from a single source supplier, AmbioPharm, and we are currently assessing alternate suppliers to prevent a possible disruption of manufacturing of EC145. We believe that we currently have, or have the ability to access, sufficient supplies of all of the key components of EC145 to manufacture EC145 to conduct and complete our ongoing phase 3 clinical trial for EC145. There are several manufacturers we are aware of that have the capacity to manufacture EC145 in the quantities that our development and future commercialization efforts, if any, may require. We have utilized two such suppliers to date. We expect to continue to depend on third-party contract manufacturers for the foreseeable future.

Our SMDCs and companion imaging diagnostics require precise, high quality manufacturing. Failure by our contract manufacturers to achieve and maintain high manufacturing standards could result in patient injury or death, product recalls or withdrawals, delays or failures in testing or delivery, cost overruns, or other problems that could seriously harm our business.

As a result of the potency of our compounds, we do not expect the quantities required at full commercial scale to present a challenge to our third-party manufacturing partners. Although we rely on contract manufacturers, we have personnel with extensive manufacturing experience to oversee the relationships with our contract manufacturers.

### **Sales and Marketing**

Our operations to date have been limited to organizing and staffing our company, acquiring, developing and securing our technology, undertaking preclinical testing and clinical studies of our SMDCs and companion imaging diagnostics and engaging in research and development under collaboration agreements. We have not yet demonstrated an ability to obtain regulatory approval, formulate and manufacture commercial-scale products, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, it is difficult to predict our future success and the viability of any commercial programs that we may choose to take forward.

Subject to successful completion of our PROCEED clinical trial for EC145 and FDA approval of EC145 for women with PROC, it is our objective to establish EC145 in combination with PLD as the therapy of choice for PROC patients. If EC145 is approved by the FDA, we intend to build the commercial infrastructure sufficient to market and sell EC145 and EC20 in the United States. This infrastructure is expected to include a specialty sales force of approximately 50 to 75 representatives, sales management, sales and distribution support staff and internal marketing staff. Following approval, but in advance of distribution, we expect to make a significant investment in marketing efforts to support the successful launch of EC145.

Outside of the United States, we may choose to utilize strategic partners or contract sales organizations to support the sales, marketing and distribution of EC145 and other approved SMDCs.

### **Employees**

As of June 30, 2011, we had a total of 57 full-time employees, of whom 46 were engaged in research and development activities. None of our employees is represented by a labor union or subject to a collective bargaining agreement. We have not experienced a work stoppage and consider our relations with our employees to be good.

### **Government Regulation**

Government authorities in the United States (including federal, state and local authorities) and in other countries, extensively regulate, among other things, the manufacturing, research and clinical development, marketing, labeling and packaging, distribution, post-approval monitoring and reporting, advertising and promotion, and export and import of pharmaceutical products, such as those we are developing. The process of obtaining regulatory approvals and the subsequent compliance with appropriate federal, state, local and foreign statutes and regulations require the expenditure of substantial time and financial resources.

#### ***United States Government Regulation***

In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or FDCA, and related regulations. Drugs are also subject to other federal, state and local statutes and regulations. Failure to comply with the applicable U.S. regulatory requirements at any time during the product development process, approval process or after approval may subject an applicant to administrative or judicial sanctions. These sanctions could include the imposition by the FDA or an Institutional Review Board, or IRB, of a clinical hold on trials, the FDA's refusal to approve pending applications or supplements, withdrawal of an approval, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, civil penalties or criminal prosecution. Any agency or judicial enforcement action could have a material adverse effect on us.

#### ***The Investigational New Drug Process***

An Investigational New Drug application, or an IND, is a request for authorization from the FDA to administer an investigational drug to humans. Such authorization must be secured before commencing clinical trials of any new drug candidate in humans.

The central focus of the initial IND submission is on the general investigational plan and the protocol(s) for human studies. The IND also includes results of animal studies or other human studies, as appropriate, as well as manufacturing information, analytical data and any available clinical data or

literature to support the use of the investigational new drug. An IND must become effective before human clinical trials may begin. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions related to the proposed clinical trials as outlined in the IND. In such a case, the IND may be placed on clinical hold until any outstanding concerns or questions are resolved.

Clinical trials involve the administration of the investigational drug to patients under the supervision of qualified investigators in accordance with Good Clinical Practices, or GCPs. Clinical trials are conducted under protocols detailing, among other things, the objectives of the trial, the parameters to be used in monitoring safety and the efficacy criteria to be evaluated. A protocol for each clinical trial and any subsequent protocol amendments must be submitted to the FDA as part of the IND. Additionally, approval must also be obtained from each clinical site's IRB before the trials may be initiated. All participants in clinical trials must provide their informed consent in writing prior to their enrollment in the trial.

The clinical investigation of an investigational drug is generally divided into three phases. Although the phases are usually conducted sequentially, they may overlap or be combined. The three phases of an investigation are as follows:

**Phase 1.** Phase 1 involves the initial introduction of an investigational new drug into humans. Phase 1 clinical trials are typically closely monitored and may be conducted in patients with the target disease or condition or healthy volunteers. These studies are designed to evaluate the safety, dosage tolerance, metabolism and pharmacologic actions of the investigational drug in humans, the side effects associated with increasing doses, and if possible, to gain early evidence on effectiveness. During phase 1 clinical trials, sufficient information about the investigational drug's pharmacokinetics and pharmacologic effects may be obtained to permit the design of well-controlled and scientifically valid phase 2 clinical trials. The total number of participants included in phase 1 clinical trials varies, but generally ranges from 20 to 80.

**Phase 2.** Phase 2 includes the controlled clinical trials conducted to preliminarily or further evaluate the effectiveness of the investigational drug for a particular indication in patients with the disease or condition under study, to determine dosage tolerance and optimal dosage, and to identify possible adverse side effects and safety risks associated with the drug. Phase 2 clinical trials are typically well controlled, closely monitored and conducted in a limited patient population, usually involving no more than several hundred participants.

**Phase 3.** Phase 3 clinical trials are generally controlled clinical trials conducted in an expanded patient population generally at geographically dispersed clinical trial sites. They are performed after preliminary evidence suggesting effectiveness of the drug has been obtained, and are intended to further evaluate dosage, effectiveness and safety, to establish the overall benefit-risk relationship of the investigational drug, and to provide an adequate basis for product approval by the FDA. Phase 3 clinical trials usually involve several hundred to several thousand participants.

The decision to terminate development of an investigational drug may be made by either a health authority body such as the FDA, or by us for various reasons. Additionally, some trials are overseen by an independent group of qualified experts organized by the trial sponsor, known as a data safety monitoring board or committee. This group provides a recommendation of whether or not a trial may move forward at pre-specified check points based on access that only the group maintains to available data from the trial. Suspension or termination of development during any phase of clinical trials can occur if it is determined that the participants or patients are being exposed to an unacceptable health risk. We may decide to suspend or terminate development based on evolving business objectives and/or competitive climate.

In addition, there are requirements and industry guidelines to require the posting of ongoing clinical trials on public registries and the disclosure of designated clinical trial results and related payments to healthcare professionals.

Assuming successful completion of all required testing in accordance with all applicable regulatory requirements, detailed investigational drug information is submitted to the FDA in the form of a New Drug Application, or NDA, except under limited circumstances, requesting approval to market the product for one or more indications.

#### *The NDA Approval Process*

In order to obtain approval to market a drug in the United States, a marketing application must be submitted to the FDA that provides data establishing the safety and effectiveness of the investigational drug for the proposed indication to the FDA's satisfaction. The application includes all relevant data available from pertinent preclinical and clinical trials, including negative or ambiguous results as well as positive findings, together with detailed information relating to the product's chemistry, manufacturing, controls and proposed labeling, among other things. Data can come from company-sponsored clinical trials intended to test the safety and effectiveness of a use of a product, or from a number of alternative sources, including studies initiated by investigators.

The FDA will initially review the NDA for completeness before it accepts the NDA for filing. The FDA has 60 days from its receipt of an NDA to determine whether the application will be accepted for filing based on the agency's threshold determination that it is sufficiently complete to permit substantive review. After the NDA submission is accepted for filing, the FDA reviews the NDA to determine, among other things, whether the proposed product is safe and effective for its intended use, and whether the product is being manufactured in accordance with cGMP to assure and preserve the product's identity, strength, quality and purity. The FDA may refer applications for novel drug products or drug products which present difficult questions of safety or efficacy to an advisory committee, typically a panel that includes clinicians and other experts, for review, evaluation and a recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions.

Based on phase 3 clinical trial results submitted in an NDA, upon the request of an applicant a priority review designation may be granted to a product by the FDA, which sets the target date for FDA action on the application at six months. Priority review is given where preliminary estimates indicate that a product, if approved, has the potential to provide a safe and effective therapy where no satisfactory alternative therapy exists, or a significant improvement compared to marketed products is possible. If criteria are not met for priority review, the standard FDA review period is ten months. Priority review designation does not change the scientific/medical standard for approval or the quality of evidence necessary to support approval.

Before approving an NDA, the FDA will inspect the facilities at which the product is manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. Additionally, before approving an NDA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. If the FDA determines the application, manufacturing process or manufacturing facilities are not acceptable, it will outline the deficiencies in the submission and often will request additional testing or information. Notwithstanding the submission of any requested additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval.

The testing and approval process for a drug requires substantial time, effort and financial resources and this process may take several years to complete. Data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA may not grant approval on a timely basis, or at all. We may encounter difficulties or unanticipated costs in our efforts to develop our SMDCs or companion imaging diagnostics and secure necessary governmental approvals, which could delay or preclude us from marketing our products. Even if the FDA approves an SMDC or companion imaging diagnostic, it may limit the approved indications for use or place other conditions on approval that could restrict commercial application, such as a requirement that we implement special risk management measures through a Risk Evaluation and Mitigation Strategy. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes and additional labeling claims, are subject to further testing requirements and FDA review and approval.

#### *Post-Approval Regulation*

After regulatory approval of a drug product is obtained, we are required to comply with a number of post-approval requirements. For example, as a condition of approval of an NDA, the FDA may require post-marketing testing, including phase 4 clinical trials, and surveillance to further assess and monitor the product's safety and effectiveness after commercialization. Regulatory approval of oncology products often requires that patients in clinical trials be followed for long periods to determine the OS benefit of the drug. The FDA has indicated to us that if we receive approval of EC145 for treatment of PROC based on PFS data from the PROCEED trial, we will be required to continue to follow patients in that trial to determine the OS benefit of the drug. In addition, as a holder of an approved NDA, we would be required to report, among other things, certain adverse reactions and production problems to the FDA, to provide updated safety and efficacy information, and to comply with requirements concerning advertising and promotional labeling for any of our products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval to assure and preserve the long-term stability of the drug product. The FDA periodically inspects manufacturing facilities to assess compliance with cGMP, which imposes extensive procedural, substantive and record-keeping requirements. In addition, changes to the manufacturing process are strictly regulated, and, depending on the significance of the change, may require FDA approval before being implemented. FDA regulations also require investigation and correction of any deviations from cGMP and impose reporting and documentation requirements upon us and any third-party manufacturers that we may decide to use. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain compliance with cGMP and other aspects of regulatory compliance.

We rely, and expect to continue to rely, on third parties for the production of clinical and commercial quantities of our SMDCs. Future FDA and state inspections may identify compliance issues at our facilities or at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct. In addition, discovery of previously unknown problems with a product or the failure to comply with applicable requirements may result in restrictions on a product, manufacturer or holder of an approved NDA, including withdrawal or recall of the product from the market or other voluntary, FDA-initiated or judicial action that could delay or prohibit further marketing. Newly discovered or developed safety or effectiveness data may require changes to a product's approved labeling, including the addition of new warnings and contraindications, and also may require the implementation of other risk management measures. Also, new government requirements, including those resulting from new legislation, may be established, or the FDA's policies may change, which could delay or prevent regulatory approval of our products under development.

***Europe/Rest of World Government Regulation***

In addition to regulations in the United States, we will be subject, either directly or through our distribution partners, to a variety of regulations in other jurisdictions governing, among other things, clinical trials and any commercial sales and distribution of our products.

Whether or not we obtain FDA approval for a product, we must obtain the requisite approvals from regulatory authorities in foreign countries prior to the commencement of clinical trials or marketing of the product in those countries. Certain countries outside of the United States have a process that requires the submission of a clinical trial application much like the IND prior to the commencement of human clinical trials. In Europe, for example, a clinical trial application, or CTA, must be submitted to each country's national health authority and an independent ethics committee, much like the FDA and IRB, respectively. Once the CTA is approved in accordance with a country's requirements, clinical trial development may proceed.

The requirements and process governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In all cases, the clinical trials are conducted in accordance with GCP and other applicable regulatory requirements.

To obtain regulatory approval of an investigational drug under European Union regulatory systems, we must submit a marketing authorization application. This application is similar to the NDA in the United States, with the exception of, among other things, country-specific document requirements. Medicines can be authorized in the European Union by using either the centralized authorization procedure or national authorization procedures, and our SMDCs and companion imaging diagnostics would fall under the centralized authorization procedure.

The EMA may grant conditional marketing authorization for a product that addresses an unmet medical need while additional development work is being completed. Conditional marketing authorization is subject to annual review by the EMA, and such authorization may be limited or even withdrawn by the EMA if subsequent development work is not satisfactory.

The EMA implemented the centralized procedure for the approval of human medicines to facilitate marketing authorizations that are valid throughout the European Union. This procedure results in a single marketing authorization issued by the EMA that is valid across the European Union, as well as Iceland, Liechtenstein and Norway. The centralized procedure is compulsory for human medicines that are: derived from biotechnology processes, such as genetic engineering; contain a new active substance indicated for the treatment of certain diseases, such as HIV/AIDS, cancer, diabetes, neurodegenerative disorders or autoimmune diseases and other immune dysfunctions; and officially designated orphan medicines.

Under the Centralized Procedure in the European Union, the maximum timeframe for the evaluation of a marketing authorization application is 210 days (excluding clock stops, when additional written or oral information is to be provided by the applicant in response to questions asked by the Committee for Medicinal Products for Human Use, or CHMP). Accelerated evaluation might be granted by the CHMP in exceptional cases, when a medicinal product is expected to be of a major public health interest, defined by three cumulative criteria: the seriousness of the disease to be treated; the absence or insufficiency of an appropriate alternative therapeutic approach; and anticipation of high therapeutic benefit. In this circumstance, EMA ensures that the opinion of the CHMP is given within 150 days.

For other countries outside of the European Union, such as countries in Eastern Europe, Latin America or Asia, the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In all cases, again, the clinical trials are conducted in accordance with GCP and the other applicable regulatory requirements.

If we fail to comply with applicable foreign regulatory requirements, we may be subject to, among other things, fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

### ***Compliance***

During all phases of development (pre- and post-marketing), failure to comply with the applicable regulatory requirements may result in administrative or judicial sanctions. These sanctions could include the following actions by the FDA or other regulatory authorities: imposition of a clinical hold on trials; refusal to approve pending applications; withdrawal of an approval; warning letters; product recalls; product seizures; total or partial suspension of production or distribution; product detention or refusal to permit the import or export of products; injunctions, fines, civil penalties or criminal prosecution. Any agency or judicial enforcement action could have a material adverse effect on us.

### ***Pharmaceutical Coverage, Pricing and Reimbursement***

Significant uncertainty exists as to the coverage and reimbursement status of any drug products for which we obtain regulatory approval. In the United States and markets in other countries, sales of any products for which we receive regulatory approval for commercial sale will depend in part on the availability of reimbursement from third-party payors. Third-party payors include government health administrative authorities, managed care providers, private health insurers and other organizations. The process for determining whether a payor will provide coverage for a drug product may be separate from the process for setting the price or reimbursement rate that the payor will pay for the drug product. Third-party payors may limit coverage to specific drug products on an approved list, or formulary, which might not include all of the FDA-approved drugs for a particular indication. Third-party payors are increasingly challenging the price and examining the medical necessity and cost-effectiveness of medical products and services, in addition to their safety and efficacy. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of our products, in addition to the costs required to obtain FDA approvals. Our SMDCs may not be considered medically necessary or cost-effective. A payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product development.

In 2003, the United States government enacted legislation providing a partial prescription drug benefit for Medicare recipients, which became effective at the beginning of 2006. Government payment for some of the costs of prescription drugs may increase demand for any products for which we receive marketing approval. However, to obtain payments under this program, we would be required to sell products to Medicare recipients through prescription drug plans operating pursuant to this legislation. These plans will likely negotiate discounted prices for our products. Federal, state and local governments in the United States continue to consider legislation to limit the growth of healthcare costs, including the cost of prescription drugs. Future legislation could limit payments for pharmaceuticals such as the drug candidates that we are developing.

Different pricing and reimbursement schemes exist in other countries. In the European Community, governments influence the price of pharmaceutical products through their pricing and reimbursement rules and control of national healthcare systems that fund a large part of the cost of those products to consumers. Some jurisdictions operate positive and negative list systems under which products may only be marketed once a reimbursement price has been agreed. To obtain reimbursement or pricing approval, some of these countries may require the completion of clinical trials that compare the cost-effectiveness of a particular SMDC to currently available therapies. Other member states allow companies to fix their own prices for



medicines, but monitor and control company profits. The downward pressure on healthcare costs in general, particularly prescription drugs, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products. In addition, in some countries, cross-border imports from low-priced markets exert a commercial pressure on pricing within a country.

The marketability of any products for which we receive regulatory approval for commercial sale may suffer if the government and third-party payors fail to provide adequate coverage and reimbursement. In addition, an increasing emphasis on managed care in the United States has increased and we expect will continue to increase the pressure on pharmaceutical pricing. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which we receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

#### ***Other Healthcare Laws and Compliance Requirements***

In the United States, our activities are potentially subject to regulation by various federal, state and local authorities in addition to the FDA, including the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration), other divisions of the U.S. Department of Health and Human Services (e.g., the Office of Inspector General), the U.S. Department of Justice and individual U.S. Attorney offices within the Department of Justice, and state and local governments. For example, sales, marketing and scientific/educational grant programs must comply with the anti-fraud and abuse provisions of the Social Security Act, the False Claims Act, the privacy provisions of the Health Insurance Portability and Accountability Act, or HIPAA, and similar state laws, each as amended. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990 and the Veterans Health Care Act of 1992, each as amended. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. Under the Veterans Health Care Act, or VHCA, drug companies are required to offer certain drugs at a reduced price to a number of federal agencies including U.S. Department of Veterans Affairs and U.S. Department of Defense, the Public Health Service and certain private Public Health Service designated entities in order to participate in other federal funding programs including Medicare and Medicaid. Recent legislative changes purport to require that discounted prices be offered for certain U.S. Department of Defense purchases for its TRICARE program via a rebate system. Participation under the VHCA requires submission of pricing data and calculation of discounts and rebates pursuant to complex statutory formulas, as well as the entry into government procurement contracts governed by the Federal Acquisition Regulations.

In order to distribute products commercially, we must comply with state laws that require the registration of manufacturers and wholesale distributors of pharmaceutical products in a state, including, in certain states, manufacturers and distributors who ship products into the state even if such manufacturers or distributors have no place of business within the state. Some states also impose requirements on manufacturers and distributors to establish the pedigree of product in the chain of distribution, including some states that require manufacturers and others to adopt new technology capable of tracking and tracing product as it moves through the distribution chain. Several states have enacted legislation requiring pharmaceutical companies to establish marketing compliance programs, file periodic reports with the state, make periodic public disclosures on sales, marketing, pricing, clinical trials and other activities or register their sales representatives, as well as prohibiting pharmacies and other healthcare entities from providing certain physician prescribing data to pharmaceutical companies for use in sales and marketing, and prohibiting certain other sales and marketing practices. All of our activities are potentially subject to federal and state consumer protection and unfair competition laws.

---

## Patents and Proprietary Rights

Because of the length of time and expense associated with bringing new products to market, biopharmaceutical companies have traditionally placed considerable importance on obtaining and maintaining patent protection for significant new technologies, products and processes.

Our success depends in part on our ability to protect the proprietary nature of our SMDC candidates, technology, and know-how, to operate without infringing on the proprietary rights of others, and to prevent others from infringing our proprietary rights. As a matter of policy, we seek to protect our proprietary position by, among other methods, filing United States and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business. We also rely on trade secrets, know-how, continuing technological innovation, and in-licensing opportunities to develop and maintain our proprietary position.

We have applied, and are applying, for patents directed to our three main areas of focus: anti-tumor therapeutics and diagnostics, anti-inflammation therapeutics and diagnostics and immunotherapy therapeutics and diagnostics, both in the United States and, when appropriate, in other countries. We own or have rights to 64 issued patents and 182 applications worldwide covering our core technology, SMDCs and companion imaging diagnostics.

Currently, we own four issued U.S. patents in whole. Three of these patents relate to EC145 or EC20 compositions of matter patent number 7,601,332, or the 332 patent, entitled Vitamin Receptor Binding Drug Delivery Conjugates, patent number 7,128,893, or the 893 patent, entitled Vitamin-Targeted Imaging Agents and patent number 7,862,798, or the 798 patent, also entitled Vitamin-Targeted Imaging Agents. The 332 patent issued on October 13, 2009 in the United States and is scheduled to expire in 2026. The 332 patent includes claims covering EC145, among other compounds. Additionally, we have filed continuation patent applications to the 332 patent and prosecution is ongoing. With respect to EC145 coverage, we have patents issued in the United States, Australia, China, India, New Zealand and South Africa with continuations filed in the United States and China, and pending patent applications in Canada, Europe, Japan, Israel, Taiwan, Argentina and Venezuela, and the patents also claim related chemical structures, pharmaceutical compositions, and methods for linking vitamins to drugs through our linker system. We also have filed several patent applications related to EC145 specifically, such as using EC20 to predict patients' response to EC145 and the combination of EC145 with PLD.

The 893 patent and 798 patent issued on October 31, 2006 and on January 4, 2011, respectively, in the United States and are both scheduled to expire in 2024. The 893 patent and 798 patent include claims covering EC20, among other compounds. Additionally, we have filed continuation patent applications to the 893 patent and prosecution is ongoing. The 798 patent was one such continuation application issued as a patent. Notably, the 893 patent has foreign patent counterparts and to date, the 893 patent equivalent has been issued in several countries worldwide. In Europe, drug product claims covering some EC20 formulations have been issued. We continue to develop strategies to increase the breadth of EC20 coverage in Europe.

We have filed additional patent applications worldwide to protect our innovations such as multidrug ligand conjugates including EC0225, spacer conjugates including EC0489, tubulysin conjugates including EC0531 and conjugates directed to the PSMA, including EC0651. EC0651 is owned by the Purdue Research Foundation, a non-profit organization, which manages the intellectual property of Purdue University, and exclusively licensed to us.

We entered into two exclusive, worldwide licenses for a number of patents and patent applications, owned by the Purdue Research Foundation, for select folate-targeted technology and for select technology related to PSMA. The folate-technology license was originally entered into on July 17, 1998 with an effective date as of December 21, 1995, and was restated on October 21, 1998. The PSMA license was entered into on March 1, 2010.

Under the two Purdue Research Foundation licenses, there are 31 issued and 71 pending patent applications worldwide which have yet to issue or grant. Most of our licensed intellectual property is under the folate-targeted license. In the United States, we license eight issued patents under the folate-targeted license and none under the PSMA license. Each of the folate-targeted license and PSMA license expire on the expiration date of the last to expire of the patents licensed thereunder, respectively, including those that are issued on patents currently pending and on matters not yet filed. As a result, the final termination date of the Purdue Research Foundation licenses is indeterminable until the last such patents issue and results of potential patent extensions are known. We may terminate the Purdue Research Foundation licenses without cause with 60 days notice. Purdue Research Foundation may terminate the licenses for material default by us which is not cured within 90 days notice by Purdue Research Foundation or upon 60 days notice in the event we fail to meet public demand for approved products covered by the licensed patents after a six month cure period following commercial introduction. The Purdue Research Foundation licenses also contain standard provisions allowing Purdue Research Foundation to terminate upon our bankruptcy. We have royalty obligations to Purdue Research Foundation based on sales of products that are designed, developed or tested using the licensed technology as well as annual minimum royalty obligations. Pursuant to our exclusive license agreement with Purdue Research Foundation relating to folate, we are obligated to pay an annual minimum royalty of \$12,500 until commercial sales commence, following which time the payment of single digit royalty rates will commence. Pursuant to our exclusive license agreement with Purdue Research Foundation relating to PSMA, we are obligated to make annual minimum payments of \$15,000 until commercial sales commence, following which time the payment of single digit royalty rates will commence, along with an annual milestone payment of \$100,000. In addition, certain clinical and regulatory milestone payments of \$500,000 along with sales-based milestones related to third-party sales are also payable. We are also subject to penalties totaling \$300,000 if certain diligence milestones are not met. Future milestone payments in excess of \$500,000 may be waived by Purdue Research Foundation. We do not anticipate incurring liabilities for EC145 royalty payments based on the estimated timing of when we may have commercial sales and the expiration of the applicable patents.

Most of our portfolio consists of intellectual property we exclusively license from Purdue Research Foundation or which we own ourselves. Generally, the intellectual property licensed from Purdue Research Foundation is early stage and relates to methods that were invented in the laboratory of Professor Philip Low. Internally, we typically develop these methods further and refine them to determine the commercial applicability. Additionally, these early-stage patents often provide us protection from competitors while we evaluate commercial possibilities of a specific program. For example, some of the very early patents we licensed from Purdue Research Foundation covered methods of delivering folate attached to targeting ligand across a cell membrane. We were able to use the patent protection afforded by such early patents to develop folate conjugates, including the invention and clinical development, and in the future, the commercialization of our linker system incorporated in EC145.

Due to the use of federal funds in the development of some of the folate-related technology at Purdue Research Foundation, the U.S. government has the irrevocable, royalty-free, paid-up right to practice and have practiced certain patents throughout the world, should it choose to exercise such rights, namely to three early-stage United States patents issued to Purdue Research Foundation and to two pending jointly owned Purdue Research Foundation patent applications.

Our development strategy also employs lifecycle management positions. For example, the interim results of our PRECEDENT trial indicated a benefit of PLD and EC145 over PLD alone. As noted above, we filed a patent application directed to this combination. In evaluating our current plans for development, it is likely that we will apply for regulatory approval for this combination. If we are able to obtain patent approval for this indication, then it will provide several years of additional coverage above and beyond the expiration of certain patents relating to EC145 alone. As a result, our general guiding strategy is to obtain patent coverage for innovations that show a clinical benefit to patients and an economic opportunity for us.

Pursuant to a license agreement with BMS we co-own several patent applications directed to epothilone with BMS. BMS notified us of their intent to terminate our license agreement in June 2010 and in July 2010 also notified us of their intent to abandon certain of the patent applications subject to the license related to folate conjugates with epothilone.

The term of individual patents depends upon the legal term of the patents in the countries in which they are obtained. In most countries in which we file, the patent term is 20 years from the earliest date of filing a non-provisional patent application. In the United States, a patent's term may be lengthened by patent term adjustment, which compensates a patentee for administrative delays by the USPTO in granting a patent, or may be shortened if a patent is terminally disclaimed over another patent.

The patent term of a patent that covers an FDA-approved drug may also be eligible for patent term extension, which permits patent term restoration as compensation for the patent term lost during the FDA regulatory review process. The Drug Price Competition and Patent Term Restoration Act of 1984, or the Hatch-Waxman Act, permits a patent term extension of up to five years beyond the expiration of the patent. The length of the patent term extension is related to the length of time the drug is under regulatory review. Patent extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval and only one patent applicable to an approved drug may be extended. Similar provisions are available in Europe and other non-U.S. jurisdictions to extend the term of a patent that covers an approved drug. In the future, if and when our pharmaceutical products receive FDA approval, we expect to apply for patent term extensions on patents covering those products.

While we pursue patent protection and enforcement of our SMDC candidates and aspects of our technologies when appropriate, we also rely on trade secrets, know-how and continuing technological advancement to develop and maintain our competitive position. To protect this competitive position, we regularly enter into confidentiality and proprietary information agreements with third parties, including employees, independent contractors, suppliers and collaborators. Our employment policy requires each new employee to enter into an agreement containing provisions generally prohibiting the disclosure of confidential information to anyone outside of us and providing that any invention conceived by an employee within the scope of his or her employment duties is our exclusive property. We have a similar policy with respect to independent contractors, generally requiring independent contractors to enter into an agreement containing provisions generally prohibiting the disclosure of confidential information to anyone outside of us and providing that any invention conceived by an independent contractor within the scope of his or her services is our exclusive property with the exception of contracts with universities and colleges that may be unable to make such assignments. Furthermore, our know-how that is accessed by third parties through collaborations and research and development contracts and through our relationships with scientific consultants is generally protected through confidentiality agreements with the appropriate parties. We cannot, however, assure you that these protective arrangements will be honored by third parties, including employees, independent contractors, suppliers and collaborators, or that these arrangements will effectively protect our rights relating to unpatented proprietary information, trade secrets and know-how. In addition, we cannot assure you that other parties will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our proprietary information and technologies.

Additionally, there can be no assurance that our patents will provide significant protection, competitive advantage or commercial benefit. The validity and enforceability of patents issued to biopharmaceutical companies has proven highly uncertain. For example, legal considerations surrounding the validity of patents in the fields of biopharmaceuticals are in transition, and we cannot assure you that the historical legal standards surrounding questions of validity will continue to be applied or that current defenses relating to issued patents in these fields will be sufficient in the future. In addition, we cannot assure you as to the degree and range of protections any of our patents, if issued, may afford us or whether patents will be issued. For example, patents which may issue to us may be subjected to further governmental review that

may ultimately result in the reduction of their scope of protection, and pending patent applications may have their requested breadth of protection significantly limited before being issued, if issued at all. Further, since publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot assure you that we were the first creator of inventions covered by our pending patent applications, or that we were the first to file patent applications for these inventions.

Many biopharmaceutical companies and university and research institutions have filed patent applications or have received patents in our areas of product development. Many of these entities' applications, patents and other intellectual property rights could prevent us from obtaining patents or could call into question the validity of any of our patents, if issued, or could otherwise adversely affect the ability to develop, manufacture or commercialize SMDC candidates. In addition, certain parts of our technology originated from third-party sources. These third-party sources include academic, government and other research laboratories, as well as the public domain. If use of technology incorporated into or used to produce our SMDCs is challenged, or if a conflicting patent issued to others is upheld in the courts or if a conflicting patent application filed by others is issued as a patent and is upheld, we may be unable to market one or more of our SMDCs, or we may be required to obtain a license to market those SMDCs. To contend with these possibilities, we may have to enter into license agreements in the future with third parties for technologies that may be useful or necessary for the manufacture or commercialization of some of our SMDCs. In addition, we are routinely in discussions with academic and commercial entities that hold patents on technology or processes that we may find necessary in order to engage in some of our activities. However, we cannot assure you that these licenses, or any others that we may be required to obtain to market our SMDCs, will be available on commercially reasonable terms, if at all, or that we will be able to develop alternative technologies if we cannot obtain required licenses.

To protect our rights to any of our issued patents and proprietary information, we may need to litigate against infringing third parties, or avail ourselves of the courts or participate in hearings to determine the scope and validity of those patents or other proprietary rights. These types of proceedings are often costly and could be very time-consuming to us, and we cannot assure you that the deciding authorities will rule in our favor. An unfavorable decision could allow third parties to use our technology without being required to pay us licensing fees or may compel us to license needed technologies to avoid infringing third-party patent and proprietary rights; or even could result in the invalidation or a limitation in the scope of our patents or forfeiture of the rights associated with our patents or pending patent applications. Although we believe that we would have valid defenses to allegations that our current SMDCs, production methods and other activities infringe the valid and enforceable intellectual property rights of any third parties, we cannot be certain that a third party will not challenge our position in the future. Even if some of these activities were found to infringe a third party's patent rights, we may be found to be exempt from infringement under 35 U.S.C. § 271(e) to the extent that these are found to be pre-commercialization activities related to our seeking regulatory approval for a SMDC. However, the scope of protection under 35 U.S.C. § 271(e) is uncertain and we cannot assure you that any defense under 35 U.S.C. § 271(e) would be successful. Further, the defense under 35 U.S.C. § 271(e) is only available for pre-commercialization activities, and could not be used as a defense for sale and marketing of any of our SMDCs. There has been, and we believe that there will continue to be, significant litigation in the biopharmaceutical and pharmaceutical industries regarding patent and other intellectual property rights.

The name Endocyte and our logo are our trademarks and we have filed applications to obtain federal registrations for those marks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

### **Legal Proceedings**

There are no claims or actions pending or threatened against us that, if adversely determined, would, in our judgment, have a material adverse effect on us.

## Facilities

Our offices are located in two primary leased facilities, a 14,000 square foot facility in West Lafayette, Indiana in the Purdue University Research Park and a 4,400 square foot corporate office space in Indianapolis, Indiana. The West Lafayette facility includes both administrative and research laboratory space. The lease for this facility expires December 31, 2011, and we do not foresee risk in obtaining an extension to this lease agreement for similar terms or having a disruption to our operations. The Indianapolis offices are used exclusively for corporate and administrative functions. The lease for this facility expires in November 2015. We believe the existing facilities are sufficient to meet our current and near-term needs.

## MANAGEMENT

The following table sets forth certain information concerning our executive officers and directors as of June 30, 2011:

Name	Age	Position
P. Ron Ellis	49	President, Chief Executive Officer and Director
Michael A. Sherman	45	Chief Financial Officer
Philip S. Low, Ph.D.	63	Chief Science Officer and Director
Christopher P. Leamon, Ph.D.	45	Vice President of Research
Chandra D. Lovejoy	40	Vice President of Regulatory Affairs
Binh Nguyen, M.D., Ph.D.	52	Vice President of Medical Affairs
Allen R. Ritter, Ph.D.	49	Vice President of Manufacturing and Chemistry Manufacturing Control
Beth A. Taylor	46	Corporate Controller
John C. Aplin, Ph.D.	65	Chairman of our Board of Directors
Douglas G. Bailey	61	Director
Keith E. Brauer	62	Director
John G. Clawson	83	Director
Ann F. Hanham, Ph.D.	57	Director
Fred A. Middleton	61	Director
James S. Shannon, M.D., MRCP	54	Director

**P. Ron Ellis** is one of our founders and has served as our President and Chief Executive Officer since January 1996 and as a member of our Board of Directors since December 1995. From May 1987 to December 1995, Mr. Ellis served in various positions at Hill-Rom Company, but most recently as Vice President of Strategy and Corporate Development of the specialty care division. Mr. Ellis holds a B.S. in computer science and an M.B.A. from Brigham Young University and a certification in regulatory affairs from Purdue University.

**Michael A. Sherman** has served as our Chief Financial Officer since October 2006. From December 1994 to October 2006, Mr. Sherman served in various executive roles, but most recently as Vice President of Finance and Strategic Planning from May 2004 to October 2006, of Guidant Corporation, or Guidant, a cardiovascular device manufacturer acquired by Boston Scientific Corporation, a medical device company, in April 2006. Mr. Sherman holds a B.A. in economics from DePauw University and an M.B.A. from the Amos Tuck School, Dartmouth College.

**Philip S. Low, Ph.D.** is one of our founders and has served as our Chief Science Officer since April 1998 and as a member of our Board of Directors since December 1995. Dr. Low has served on the faculty at Purdue University since August 1976, where he is currently the Ralph C. Corley Distinguished Professor of Chemistry. Dr. Low holds a B.S. in chemistry from Brigham Young University and a Ph.D. in biochemistry from the University of California, San Diego.

**Christopher P. Leamon, Ph.D.** has served as our Vice President of Research since April 2000. From February 1999 to April 2000, Dr. Leamon served as our Director of Biology and Biochemistry. Prior to joining us, Dr. Leamon was employed in the pharmaceutical industry where he conducted discovery research in the field of peptide, oligonucleotide, liposome and DNA drug delivery for GlaxoWellcome, a healthcare company, in December 2000, and Isis Pharmaceuticals, a biomedical pharmaceutical company. Dr. Leamon holds a B.S. in chemistry from Baldwin Wallace College and a Ph.D. in biochemistry from Purdue University.

**Chandra D. Lovejoy** has served as our Vice President of Regulatory Affairs since May 2010. From December 2007 to May 2010, Ms. Lovejoy served as our Director of Regulatory Affairs. Ms. Lovejoy served in various positions at Genentech, a biotechnology company and an indirectly wholly owned subsidiary of Roche Holdings, a healthcare company, including Manager of Regulatory Affairs from October 2006 to November 2007 and as a Senior Associate of Regulatory Affairs from April 2005 to October 2006. Ms. Lovejoy holds a B.S. in organizational behavior from the University of San Francisco and a certification in regulatory affairs from San Diego State University.

**Binh Nguyen, M.D., Ph.D.** has served as our Vice President of Medical Affairs since June 2011. From August 2005 to June 2011, he served as Chief Medical Officer at Tigris Pharmaceuticals, Inc. and prior to August 2005, he worked at Eli Lilly & Company for 10 years, most recently as Executive Director, Global Oncology Platform Team, for which he was responsible for the global development of Gemzar®, Alimta®, and Enzastaurin. Dr. Nguyen received his Ph.D. in organic chemistry from Georgetown University and his M.D. from the University of Maryland. He completed fellowships at the National Cancer Institute and worked at the FDA's Division of Oncology as a medical reviewer.

**Allen R. Ritter, Ph.D.** has served as our Vice President of Manufacturing and Chemistry Manufacturing Control, or CMC, since December 2005. From May 2004 to December 2005, Dr. Ritter served as our Director of Development, CMC and Manufacturing. Dr. Ritter holds a B.S. in chemistry from St. Olaf College, an M.S. in organic chemistry from the University of Pittsburgh, and a Ph.D. in synthetic organic chemistry from the University of Notre Dame.

**Beth A. Taylor** has served as our Corporate Controller since January 2011. She served as Corporate Controller of Author Solutions, Inc. from December 2009 to December 2010, as Vice President of Accounting, Financial Reporting and Control at Harlan Laboratories, Inc. from July 2007 to May 2009 and in various roles at Republic Airways Holdings, Inc. from May 1999 through June 2007, including Vice President and Corporate Controller from August 2004 through June 2007. Ms. Taylor holds a B.S. in Accounting from Indiana University.

**John C. Aplin, Ph.D.** has served as a member of our Board of Directors since May 2003 and a Chairman of our Board of Directors since May 2011. Since November 1990, Dr. Aplin has served as General Partner and Managing Director of CID Capital, a venture capital firm he joined after previously serving as President and Chief Executive Officer of The Fuller Brush Company, a supplier of consumer products. Dr. Aplin holds a B.S. in business administration from Drake University, and an M.A. in industrial and labor relations and a Ph.D. in business administration from the University of Iowa. Dr. Aplin is also a Certified Management Consultant.

**Douglas G. Bailey** has served as a member of our Board of Directors since July 2001. Mr. Bailey is the founder of American Bailey Corporation, a private equity firm for which he has served as President since October 1984 and as Chief Executive Officer since 1996. Mr. Bailey has served as the President and Chief Executive Officer since April 2010, Chairman of the board of directors since January 2010, Deputy Chairman from 2002 through 2009, and a director since April 1998 of Fuel Tech, a fuel technology company. Mr. Bailey holds a B.S., an M.S. and Engineer's degree, all in mechanical engineering from Massachusetts Institute of Technology, and an M.B.A. from the Harvard Business School.

**Keith E. Brauer** has served as a member of our Board of Directors since August 2006. Since August 1999, Mr. Brauer has served in various roles at the Community Hospitals of Indianapolis, or CHI, including roles with CHI's affiliate, Indiana Heart Hospital, or IHH. Mr. Brauer since August 1999 has served as a member of CHI's finance committee, since April 2006 as a member of IHH's board of directors and since July 2009 as Chairman of IHH's board of directors. Mr. Brauer was also a member of CHI's board of directors from October 2000 to December 2009 and as Chairman of CHI's board of directors from August 2003 to August 2005. He has also served on the board of directors since June 2006 and chairman of the audit committee since September 2006 of NanoInk, Inc., a nanometer-scale manufacturing and applications development company. He has also served on the board of directors since August 2008 and chairman of the audit committee since October 2008 of NICO Corporation, a neurosurgery company. From 1988 to 1994, Mr. Brauer served in various executive roles at Eli Lilly and Company, a healthcare company, most recently as Executive Director and Chief Accounting Officer. From July 1994 to April 2006, Mr. Brauer served as Vice President, Finance and Chief Financial Officer of Guidant, which was acquired by Boston Scientific Corporation, a medical device company, in April 2006. Mr. Brauer retired with full benefits after the acquisition of Guidant and has not sought full time employment since that time. Mr. Brauer holds a B.S. in management from Indiana University and an M.B.A. from the University of Michigan.

**John G. Clawson** has served as a member of our Board of Directors since December 1995. He served as Chairman of our Board of Directors from August 2001 to May 2011. Mr. Clawson served as Chief Executive Officer of Hill-Rom, Inc., a wholly owned subsidiary of Hill-Rom Holdings, Inc., a medical device and equipment company, and a former subsidiary of Hillenbrand Industries, a healthcare and funeral services company, from 1975 to 1993. From May 2002 to November 2008, Mr. Clawson served as a director of Non-Invasive Monitoring Systems, a medical appliance and equipment company. Mr. Clawson holds a B.A. in social sciences from Brigham Young University and an M.B.A. from the Harvard Business School.

**Ann F. Hanham, Ph.D.** has served as a member of our Board of Directors since November 2004. Dr. Hanham joined Burrill & Company, a venture capital and merchant banking firm, in February 2000 and has served as a Managing Director there since January 2002. Dr. Hanham served on the board of directors of BioMimetic Therapeutics, Inc., a biopharmaceutical company, from May 2001 to September 2006; Biotie Therapies, a drug discovery and development company, from March 2009 to April 2010; and Targacept, a biopharmaceutical company, from September 2005 to August 2006. Dr. Hanham holds a B.Sc. from the University of Toronto, a M.Sc. from Simon Fraser University and a Ph.D. from the University of British Columbia.

**Fred A. Middleton** has served as a member of our Board of Directors since July 2001. Since 1987, Mr. Middleton has been a General Partner and Managing Director of Sanderling Ventures, a biomedical venture capital firm. During the last 30 years, Mr. Middleton has served in a number of roles and as a member of management, board member of, or an investor in over 25 biomedical companies. Mr. Middleton currently serves as Chairman of the board of directors of Stereotaxis, a medical device company, as Chairman of the Board of Pacira Pharmaceuticals, and as a member of board of directors of CardioNet, a cardiac rhythm services company. Mr. Middleton also serves on the board of directors of six other privately-held biomedical and biotechnology companies. He holds a B.S. in chemistry from the Massachusetts Institute of Technology and an M.B.A. from the Harvard Business School.

**James S. Shannon, M.D., MRCP (UK)** has served as a member of our Board of Directors since February 2010. Dr. Shannon served as the President and Chief Executive Officer of Cerimon Pharmaceuticals, a biopharmaceutical company, from January 2009 to April 2010 and has served as a director since October 2008. Dr. Shannon served in various executive roles at Novartis AG, a healthcare products company from December 1994 to September 2008, serving as Global Head of Pharma



Development from November 2005 to September 2008. From October 2008 to December 2008 Mr. Shannon was between jobs. He has served on the board of directors of MannKind Corporation, a biopharmaceutical company, since February 2010, Crucell, a biopharmaceutical company, since June 2010, Biotie Therapies, a biopharmaceutical company, since April 2010 and several other private companies. Dr. Shannon holds a B.Sc., an M.B., a B.Ch., a B.A.O. and an M.D. in medicine from Queen's University of Belfast and is a Member of the Royal College of Physicians (UK).

## PRINCIPAL STOCKHOLDERS AND SELLING STOCKHOLDER

Set forth below is information relating to the beneficial ownership of our common stock as of June 30, 2011, and as adjusted to reflect the sale of 4,000,000 shares of common stock in this offering by us and the sale of 841,610 shares of common stock in this offering by the Selling Stockholder, by:

each person known by us to beneficially own more than five percent of our outstanding shares of common stock;

each of our directors;

each of our named executive officers;

all directors and executive officers as a group; and

the Selling Stockholder.

We have agreed to bear the expenses (other than underwriting discounts and commissions) of the Selling Stockholder in connection with this offering and to indemnify it against certain liabilities, including liabilities under the Securities Act.

The shares to be sold by the Selling Stockholder were originally issued and sold by us to such stockholder pursuant to exemptions from registration requirements in reliance upon Section 4(2) of the Securities Act or Regulation D promulgated thereunder. The shares issued and sold in reliance upon Section 4(2) or Regulation D were issued and sold in private placement transactions of our common stock as well as our convertible preferred stock and subordinated notes at various times from 2001 to 2009. The Selling Stockholder was, in each of these transactions an accredited investor. The Selling Stockholder represented its intentions at the time to acquire the securities for investment only and not with a view to any distribution or sale thereof and had adequate access to information about us.

Applicable percentage ownership is based on 29,724,837 shares of common stock outstanding on June 30, 2011. For purposes of the table below, we have assumed that 33,724,837 shares of common stock will be outstanding upon closing of this offering, based upon our sale of 4,000,000 shares of common stock in the offering. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to options and warrants held by that person that are currently exercisable or exercisable within 60 days of June 30, 2011. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Name and Address of Beneficial Owner	Shares Beneficially Owned Prior to the Offering		Shares Beneficially Owned After the Offering	
	Number of Shares	%	Shares	%
<b>5% and Greater Stockholders</b>				
FMR LLC(1) 82 Devonshire Street Boston, MA 02109	<b>3,600,000</b>	<b>12.11</b>	3,600,000	10.67
Pension Fund of the Christian Church (Disciples of Christ), Inc. Pension Fund of the Christian Church 130 East Washington Street Indianapolis, IN 46204-3645	<b>3,283,132</b>	<b>11.05</b>	3,283,132	9.74
Entities related to Sanderling Ventures(2) Sanderling Ventures 400 S. El Camino Real, Suite 1200 San Mateo, CA 94402	<b>3,329,786</b>	<b>11.20</b>	3,329,786	9.87
Cincinnati Financial Corporation 6200 S. Gilmore Road Fairfield, OH 45014-5141	<b>1,491,610</b>	<b>5.02</b>	650,000	1.93
<b>Management</b>				
P. Ron Ellis(3)	<b>444,963</b>	<b>1.50</b>	444,963	1.32
Michael A. Sherman(4)	<b>169,269</b>	*	169,269	*
Philip S. Low, Ph.D.(5)	<b>564,007</b>	<b>1.90</b>	564,007	1.67
Christopher P. Leamon, Ph.D.(6)	<b>127,721</b>	*	127,721	*
Chandra D. Lovejoy(7)	<b>29,170</b>	*	29,170	*
Richard Messman, M.D.(8)	<b>98,830</b>	*	114,353	*
Allen R. Ritter, Ph.D.(9)	<b>86,300</b>	*	86,300	*
John G. Clawson(10)	<b>19,956</b>	*	19,956	*
John C. Aplin, Ph.D.(11)	<b>437,365</b>	<b>1.47</b>	437,365	1.30
Douglas G. Bailey(12)	<b>1,399,510</b>	<b>4.71</b>	1,399,510	4.15
Keith E. Brauer(13)	<b>32,676</b>	*	32,676	*
Ann F. Hanham, Ph.D.(14)	<b>1,337,970</b>	<b>4.50</b>	1,337,970	3.97
Fred A. Middleton(15)	<b>3,335,021</b>	<b>11.22</b>	3,335,021	9.89
James S. Shannon, M.D., MRCP(16)	<b>872</b>	*	872	*
All directors and executive officers as a group (16 people)(17)	<b>8,085,352</b>	<b>27.20</b>	7,243,742	21.48

- (1) Based solely on information provided by FMR LLC in a Schedule 13G filed with the Securities and Exchange Commission on March 10, 2011. FMR LLC entities have the sole power to dispose of 3,600,000 shares of common stock and the sole power to vote 0 shares of common stock.
- (2) Consists of (i) 100,828 shares held by Sanderling V Beteiligungs GmbH & Co. KG; (ii) 162,170 shares held by Sanderling V Biomedical Co-Investment Fund, L.P.; (iii) 249,148 shares held by Sanderling V

- Biomedical, L.P.; (iv) 113,315 shares held by Sanderling V Limited Partnership; (v) 267,491 shares held by Sanderling Venture Partners V Co-Investment Fund; (vi) 1,017,304 shares held by Sanderling Venture Partners V, L.P.; (vii) 435,861 shares held by Sanderling Venture Partners VI Co-Investment Fund, L.P.; (viii) 149,003 shares held by Sanderling Ventures Management V; (ix) 30,766 shares held by Sanderling Ventures Management VI; (x) 8,434 shares held by Sanderling VI Beteiligungs GmbH and Co. KG; (xi) 10,049 shares held by Sanderling VI Limited Partnership; (xii) 8,529 shares held by Sanderling Venture Partners, V, L.P.; and (xiii) 785,417 shares held by Sanderling V Strategic Exit Fund, L.P. 2,089 shares held by Sanderling V Biomedical, L.P., 5,235 shares held by Sanderling Ventures Management V, 845 shares held by Sanderling V Limited Partnership and 752 shares held by Sanderling V Beteiligungs GmbH & Co. KG are subject to repurchase based on milestones set forth in the Restricted Stock Purchase Agreement dated July 10, 2001 between the Company and each of Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., ABV Holding Company 7 LLC, Douglas G. Bailey, and Cincinnati Financial Corporation. Fred Middleton is a managing director of Middleton, McNeil & Mills Associates V, LLC which has the ultimate voting and investment power over shares held of record by Sanderling V Beteiligungs GmbH & Co. KG, Sanderling V Biomedical Co-Investment Fund, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership, Sanderling Venture Partners V, L.P., Sanderling Venture Partners VI Co-Investment Fund, L.P., Sanderling VI Beteiligungs GmbH and Co. KG and Sanderling VI Limited Partnership and he may be deemed to have voting and investment power over shares held of record by Sanderling V Beteiligungs GmbH & Co. KG, Sanderling V Biomedical Co-Investment Fund, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership, Sanderling Venture Partners V, L.P., Sanderling Venture Partners VI Co-Investment Fund, L.P., Sanderling VI Beteiligungs GmbH and Co. KG and Sanderling VI Limited Partnership. Fred Middleton is the owner of Sanderling Ventures Management V and Sanderling Ventures Management VI Partnership and he may be deemed to have voting and investment power over shares held of record by Sanderling Ventures Management V and Sanderling Ventures Management VI Partnership. Mr. Middleton disclaims beneficial ownership of the shares directly held by the entities affiliated with Sanderling except to the extent of his individual pecuniary interest therein.
- (3) Consists of (i) 78,632 shares held by P. Ron Ellis and Margaret Heard Ellis, JTWROS; (ii) 13,142 shares held by P. Ron Ellis; and (iii) 353,189 shares held by P. Ron Ellis issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (4) Includes 96,994 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (5) Consists of (i) 433,117 shares held by Philip S. Low and Joan Low, JTWROS and (ii) 130,890 shares held by Philip S. Low issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (6) Consists of 107,648 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (7) Consists of 29,170 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (8) Consists of 98,830 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (9) Consists of 83,816 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (10) Consists of 5,235 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
- (11) Consists of (i) 288,235 shares held by CID Equity Capital VIII, L.P., (ii) 143,895 shares held by CID Seed Fund, L.P. and (iii) 5,235 shares held by John C. Aplin issuable upon exercise of options exercisable within 60 days of June 30, 2011. John Aplin is a Class A member of CID Equity Partners

VIII, LLC, which has the ultimate voting and investment power over shares held of record by CID Equity Capital VIII, L.P., and he may be deemed to have voting and investment power over shares held of record by CID Equity Capital VIII, L.P. John Aplin is a general partner of CID Seed Fund Partners I which has the ultimate voting and investment power over shares held of record by CID Seed Fund, L.P., and he may be deemed to have voting and investment power over shares held of record by CID Seed Fund, L.P. Mr. Aplin disclaims beneficial ownership of the shares directly held by the entities affiliated with CID except to the extent of his individual pecuniary interest therein.

- (12) Consists of (i) 1,320,978 shares held by entities affiliated with ABV Holding Company, (ii) 73,297 shares held by Douglas G. Bailey and (iii) 5,235 shares held by Douglas G. Bailey issuable upon exercise of options exercisable within 60 days of June 30, 2011. 3,490 shares held by Douglas G. Bailey and 5,235 shares held by entities affiliated with ABV Holding Company are subject to repurchase based on milestones set forth in the Restricted Stock Purchase Agreement dated July 10, 2001 between the Company and each of Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., ABV Holding Company 7 LLC, Douglas G. Bailey, and Cincinnati Financial Corporation. Douglas Bailey, a managing member of ABV Holding Company 12 LLC, is a member of our Board of Directors. Mr. Bailey disclaims beneficial ownership of the shares directly held by the entities affiliated with American Bailey Ventures LLC except to the extent of his pecuniary interest therein.
  
- (13) Consists of 32,676 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
  
- (14) Consists of 1,332,735 shares held by entities affiliated with Burrill & Company and 5,235 shares held by Ann F. Hanham issuable upon exercise of options exercisable within 60 days of June 30, 2011.
  
- (15) Consists of 3,329,786 shares held by entities affiliated with Sanderling Ventures and 5,235 shares held by Fred A. Middleton issuable upon exercise of options exercisable within 60 days of June 30, 2011.
  
- (16) Consists of 872 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.
  
- (17) Includes 948,761 shares issuable upon exercise of options exercisable within 60 days of June 30, 2011.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the director and executive compensation arrangements described in the proxy statement incorporated by reference in this prospectus, we have been a party to the following transactions since January 1, 2008, in which the amount involved exceeded or will exceed \$120,000, and in which any director, executive officer or holder of more than five percent of any class of our voting stock, or any member of the immediate family of or entities affiliated with any of them, had or will have a material interest.

### Sales of Subordinated Notes

In December 2010, we issued \$8.1 million of Subordinated Notes and in January 2011 we issued an additional \$3.7 million of Subordinated Notes. A \$7.0 million investment was made by the Pension Fund of the Christian Church (Disciples of Christ), Inc., a \$4.7 million investment from three other holders of our preferred stock and \$100,000 from Mike Sherman, our Chief Financial Officer. The Subordinated Notes accrue interest in kind at an annual rate of 10.0 percent and are not due until maturity. The conversion price for the Subordinated Notes was 85 percent of the next equity financing price if it occurs on or before June 30, 2011 or 80 percent of next equity financing price if it occurs after June 30, 2011. The Subordinated Notes and accrued and unpaid interest converted into 2,335,823 shares of our common stock, as a result of our initial public offering.

### Sales of Series C-3 Convertible Preferred Stock

Between March 9, 2007 and October 13, 2009, we issued and sold an aggregate of 5,135,965 shares of our Series C-3 convertible preferred stock at a per share price of \$8.12, for aggregate consideration of approximately \$41.6 million. We believe that the terms obtained and consideration received in connection with the Series C-3 financing were comparable to terms available and the amounts we would have received in an arm's-length transaction.

The table below summarizes purchases of shares of our Series C-3 convertible preferred stock by our directors, executive officers, holders of more than five percent of any class of our voting securities, or any member of the immediate family of or any entities affiliated with any of the foregoing persons. In connection with these sales, we granted the purchasers certain registration rights with respect to their securities. See Description of Capital Stock Registration Rights. Each outstanding share of our Series C-3 convertible preferred stock converted into one share of our common stock upon the closing of our initial public offering.

Purchasers	Shares of Series C-3 Convertible Preferred Stock	Aggregate Purchase Price
ABV Holding Company 12 LLC(1)	366,490	\$ 2,975,000
Blue Chip IV Limited Partnership	493,724	\$ 4,007,810
Entities affiliated with Burrill & Company(2)	463,164	\$ 3,759,763
Entities affiliated with CID Equity Partners(3)	62,560	\$ 507,841
Cincinnati Financial Corporation	489,149	\$ 3,970,673
Douglas G. Bailey	17,451	\$ 141,665
Individuals immediately related to and entities affiliated with John G. Clawson(4)	49,273	\$ 399,989
Pension Fund of the Christian Church (Disciples of Christ), Inc.	1,272,821	\$ 10,332,128
Entities affiliated with Sanderling Venture Partners(5)	985,331	\$ 7,998,521
Triathlon Medical Ventures Fund, L.P.	376,452	\$ 3,055,856
<b>Total</b>	<b>4,576,415</b>	<b>\$ 37,149,246</b>

- (1) Douglas Bailey, a managing director of ABV Holding Company 12 LLC, is a member of our Board of Directors.
- (2) Consists of (i) 427,601 shares held by Burrill Life Sciences Capital Fund, L.P. and (ii) 35,563 shares held by Burrill Indiana Life Sciences Capital Fund, L.P. Ann Hanham, a managing director of Burrill & Company LLC, is a member of our Board of Directors.
- (3) Consists of (i) 41,855 shares held by CID Equity Capital VIII, L.P. and (ii) 20,705 shares held by CID Seed Fund, L.P. John Aplin is a Class A member of CID Equity Partners VIII, LLC, which has the ultimate voting and investment power over shares held of record by CID Equity Capital VIII, L.P., and he may be deemed to have voting and investment power over shares held of record by CID Equity Capital VIII, L.P. John Aplin is a general partner of CID Seed Fund Partners I which has the ultimate voting and investment power over shares held of record by CID Seed Fund, L.P., and he may be deemed to have voting and investment power over shares held of record by CID Seed Fund, L.P.
- (4) Consists of (i) 12,318 shares held by John G. Clawson; (ii) 12,318 shares held by Curtis J. Clawson; and (iii) 24,637 shares held by The Clawson Family Revocable Trust U/A/D 04/24/1998. John G. Clawson, who is an immediate family member of Curtis J. Clawson and a beneficiary of The Clawson Family Revocable Trust U/A/D 04/24/1998, is a member of our Board of Directors.
- (5) Consists of (i) 16,548 shares held by Sanderling V Beteiligungs GmbH & Co. KG; (ii) 113,746 shares held by Sanderling V Biomedical Co-Investment Fund, L.P.; (iii) 55,565 shares held by Sanderling V Biomedical, L.P.; (iv) 18,790 shares held by Sanderling V Limited Partnership; (v) 187,618 shares held by Sanderling Venture Partners V Co-Investment Fund; (vi) 255,935 shares held by Sanderling Venture Partners V, L.P.; (vii) 289,103 shares held by Sanderling Venture Partners VI Co-Investment Fund, L.P.; (viii) 32,724 shares held by Sanderling Ventures Management V; (ix) 3,043 shares held by Sanderling Ventures Management VI; (x) 5,594 shares held by Sanderling VI Beteiligungs GmbH and Co. KG; and (xi) 6,665 shares held by Sanderling VI Limited Partnership. Fred Middleton is a managing director of Middleton, McNeil & Mills Associates V, LLC, which has the ultimate voting and investment power over shares held of record by Sanderling V Beteiligungs GmbH & Co. KG, Sanderling V Biomedical Co-Investment Fund, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership, Sanderling Venture Partners V, L.P., Sanderling Venture Partners VI Co-Investment Fund, L.P., Sanderling VI Beteiligungs GmbH and Co. KG and Sanderling VI Limited Partnership and he may be deemed to have voting and investment power over shares held of record by Sanderling V Beteiligungs GmbH & Co. KG, Sanderling V Biomedical Co-Investment Fund, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership, Sanderling Venture Partners V, L.P., Sanderling Venture Partners VI Co-Investment Fund, L.P., Sanderling VI Beteiligungs GmbH and Co. KG and Sanderling VI Limited Partnership. Fred Middleton is the owner of Sanderling Ventures Management V and Sanderling Ventures Management VI Partnership and he may be deemed to have voting and investment power over shares held of record by Sanderling Ventures Management V and Sanderling Ventures Management VI Partnership.

#### **Investor Rights Agreement**

Holders of our common stock issued upon conversion of the convertible preferred stock are entitled to certain registration rights. See Description of Capital Stock Registration Rights for more information.

### **Voting Agreement**

We entered into a voting agreement with our equity holders that contained agreements with respect to the election of our Board of Directors and its composition that terminated upon the closing of our initial public offering.

### **Participation in Initial Public Offering**

In February 2011, entities affiliated with Burrill & Company and Sanderling Ventures, each of which is a current stockholder, and our Chief Executive Officer, P. Ron Ellis, purchased an aggregate of 1,335,833 shares of our common stock in our initial public offering.

### **Right of First Refusal and Co-Sale Agreement**

We entered into a right of first refusal and co-sale agreement with our holders of convertible preferred stock and certain other stockholders. This agreement provided the holders of convertible preferred stock a right of purchase and of co-sale in respect of sales of securities by certain holders of common stock. These rights of purchase and co-sale terminated upon the closing of our initial public offering.

### **Transactions with Our Founders and Entities Affiliated with Our Founders**

Dr. Philip S. Low, our Chief Science Officer and one of our founders and directors, conducts research at Purdue Research Foundation. We entered into an exclusive license agreement dated October 21, 1998, as amended, and an exclusive license agreement effective March 1, 2010 with Purdue Research Foundation to license certain intellectual property and methods that were invented in Dr. Low's laboratory. Additionally, we entered into a lease dated March 1, 2010 with Purdue Research Foundation, and we issued and sold 10,884 shares of our Series C convertible preferred stock to Purdue Research Foundation on August 4, 2003, which was later converted into 12,318 shares of our Series C-1 convertible preferred stock at a per share value of \$8.12, for aggregate value of \$99,999.

Dr. Low is entitled to a total of \$50,000 upon the achievement of certain milestones pursuant to a patent assignment agreement dated November 1, 2007 that we entered into with Optical Therapeutic Technologies, or OTT, Dr. Low and three other individuals, pursuant to which each of the individuals assigned certain patent applications to us and OTT released any rights to conjugate patents of such patent applications. The patent assignment agreement provided each of the individuals, but not OTT, with the following payments:

\$6,250 to each individual upon signing the patent assignment agreement;

\$12,500 to each individual upon the issuance of the first conjugate patent by the USPTO; and

\$37,500 to each individual upon the FDA's approval of the first product comprising or containing any conjugate covered by a valid claim of a conjugate patent.

To date, we have paid the first payment of \$6,250 to each individual upon execution of the patent assignment agreement, totaling \$25,000. Potential payments totaling \$200,000 may be paid to the individuals upon the achievement of the two milestones described above. We expect to make a payment of \$50,000 in 2011 due to the issuance of a patent. The patent assignment agreement does not provide a term or termination provisions.

We employ Dr. Low, one of our two founders, as our Chief Science Officer and have and continue to compensate him for his services as reported in the proxy statement incorporated by reference in this prospectus. In addition, in 2008, 2009, 2010 and 2011 we issued him options in those same years to purchase 65,445, 22,759, 65,445 and 50,000, respectively, shares of our common stock.



---

## DESCRIPTION OF CAPITAL STOCK

The following information describes our common stock, convertible preferred stock, options to purchase our common stock and warrants to purchase our common stock and provisions of our amended and restated certificate of incorporation and bylaws. This description is only a summary. You should also refer to our amended and restated certificate of incorporation and bylaws, which have been filed with the Securities and Exchange Commission as exhibits to our registration statement, of which this prospectus forms a part.

### Common Stock

As of June 30, 2011, there were 100,000,000 shares of common stock, par value \$0.001 per share, authorized, of which 29,724,837 shares were outstanding. After this offering, there will be 33,724,837 shares of common stock outstanding, assuming no exercise of the underwriters over-allotment option.

As of June 30, 2011, there were outstanding options to purchase a total of 2,812,872 shares of our common stock, and outstanding warrants to purchase a total of 133,968 shares of our common stock.

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the voting shares are able to elect all of the directors. Subject to preferences that may be granted to any then outstanding convertible preferred stock, holders of common stock are entitled to receive ratably only those dividends as may be declared by our Board of Directors out of funds legally available therefore. For more information please see Dividend Policy. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all of our assets remaining after we pay our liabilities and distribute the liquidation preference of any then outstanding convertible preferred stock. Holders of common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock.

### Convertible Preferred Stock

Our Board of Directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of convertible preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, redemption rights, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of convertible preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of convertible preferred stock could have the effect of delaying, deferring or preventing a change in our control or other corporate action. There are no shares of convertible preferred stock currently outstanding, and we have no present plan to issue any shares of convertible preferred stock.

### Registration Rights

The holders of 14,606,266 shares of our common stock or common stock issuable upon exercise of warrants or their transferees will be entitled to certain rights with respect to the registration of such shares under the Securities Act. In the event that we propose to register any of our securities under the Securities

Act, either for our own account or for the account of other security holders, these holders are entitled to notice of such registration and are entitled to include their common stock in such registration, subject to certain marketing and other limitations. The holders of at least 50 percent of these securities have the right to require us, on not more than two occasions, to file a registration statement on Form S-1 under the Securities Act in order to register the resale of shares of their common stock. We may, in certain circumstances, defer such registrations and the underwriters have the right, subject to certain limitations, to limit the number of shares included in such registrations. Further, these holders may require us to register the resale of all or a portion of their shares on a registration statement on Form S-3, subject to certain conditions and limitations. In addition, these holders have certain piggyback registration rights. If we propose to register any of our equity securities under the Securities Act other than pursuant to the registration rights noted above or specified excluded registrations, which include the registration of the shares issued and issuable under our equity incentive plans and shares sold in this offering, holders may require us to include all or a portion of their registrable securities in the registration and in any related underwritten offering. In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of registrable securities such holders may include. Additionally, piggyback registrations are subject to delay or termination of the registration under certain circumstances. Generally, we are required to bear all registration and related expenses incurred in connection with the demand and piggyback registrations described above. If we are required to file a registration statement, we must use our best efforts to cause the registration statement to become effective.

We are obligated to indemnify the Selling Stockholder and any person who might be deemed to control them or any of their subsidiaries in the event of material misstatements or omissions in the registration statement or related violations of law attributable to us. The Selling Stockholder is obligated to indemnify us, each underwriter, if any, and each person who controls us or any underwriter within the meaning of Section 15 of the Securities Act in the event of material misstatements or omissions in the registration statement attributable to the Selling Stockholder. The liability of the Selling Stockholder shall be limited to an amount equal to the gross proceeds to the Selling Stockholder.

#### **Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws**

Certain provisions of Delaware law and our restated certificate of incorporation and bylaws contain provisions that could have the effect of delaying, deferring or discouraging another party from acquiring control of us. These provisions, which are summarized below, are expected to discourage certain types of coercive takeover practices and inadequate takeover bids. These provisions are also designed in part to encourage anyone seeking to acquire control of us to first negotiate with our Board of Directors. We believe that the advantages gained by protecting our ability to negotiate with any unsolicited and potentially unfriendly acquirer outweigh the disadvantages of discouraging such proposals, including those priced above the then-current market value of our common stock, because, among other reasons, the negotiation of such proposals could improve their terms.

#### ***Certificate of Incorporation and Bylaws***

Our amended and restated certificate of incorporation and bylaws include provisions that:

authorize our Board of Directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated convertible preferred stock;

require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;

specify that special meetings of our stockholders can be called only by our Board of Directors, the Chairman of our Board, the Chief Executive Officer or the President;

establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our Board of Directors;

provide that directors may be removed only for cause;

provide that vacancies on our Board of Directors may be filled only by a majority of directors then in office, even though less than a quorum;

establish that our Board of Directors is divided into three classes, Class I, Class II, and Class III, with each class serving staggered three year terms; and

specify that no stockholder is permitted to cumulate votes at any election of our Board of Directors.

***Delaware Anti-Takeover Statute***

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

prior to the date of the transaction, our Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

upon closing of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85 percent of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not for determining the outstanding voting stock owned by the interested stockholder, (1) shares owned by persons who are directors and also officers, and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

at or subsequent to the date of the transaction, the business combination is approved by our Board of Directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66(2/3) percent of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15 percent or more of a corporation's outstanding voting stock. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our Board of Directors does not approve in advance. We also anticipate that Section 203 may discourage business combinations or other attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

The provisions of Delaware law and our restated certificate of incorporation and bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A. Its address is 350 Indiana Street, Suite 750, Golden, Colorado 80401, and its telephone number is (303) 262-0600.

**Listing**

Our common stock is listed on The NASDAQ Global Market under the trading symbol ECYT.

---

## SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after the offering because of contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon the closing of this offering, we will have 33,724,837 outstanding shares of common stock based on the number of shares outstanding on June 30, 2011 and no exercise of outstanding warrants or stock options or payouts of restricted stock units. Of these shares, the 14,375,000 shares sold in our initial public offering, the 63,223 shares issued upon exercise of stock options since February 9, 2011, the 4,841,610 shares sold in this offering, plus any additional shares sold upon exercise of the underwriters' over-allotment option, are or will be freely transferable without restriction under the Securities Act, unless they are held by our affiliates as that term is used under the Securities Act and the rules and regulations promulgated thereunder. The remaining 14,445,004 shares of common stock are restricted shares which, along with other shares held by our affiliates, may be sold in the public market only if registered, or if they qualify for the exemption from registration under Rule 144 promulgated under the Securities Act, which rules are summarized below, or another exemption from registration.

The restricted shares and other shares held by our affiliates will be eligible for resale, subject to the provisions of Rule 144, upon the expiration of the February 2011 lockup agreement on August 3, 2011; however, we expect that at least a total of approximately 13,660,000 of these shares will remain subject to the 90-day lockup described below. These lockup periods are subject to extension under certain circumstances. At any time and without public notice, the underwriters may in their sole discretion release some or all of the securities from these lockup agreements prior to the expiration of the respective lockup periods.

### Lockup Agreements

We, all of our directors and executive officers, the Selling Stockholder, and certain additional stockholders (non-affiliated investors who acquired 25,000 or more shares prior to our initial public offering) expect to agree that, subject to customary exceptions, we and they will not, during the period ending 90 days after the date of this prospectus, and in specific circumstances, up to an additional 34 days:

directly or indirectly, sell, offer, contract or grant any option to sell, short sell, grant any option, right or warrant to purchase, pledge, transfer, establish an open put equivalent position, lend or otherwise dispose of any shares of our common stock, options, rights or warrants to acquire shares of our common stock, or securities exchangeable or exercisable for or convertible into shares of our common stock owned either of record or beneficially;

enter into any swap or other arrangement that transfers, in whole or in part, the economic consequences of the ownership of our common stock; or

publicly announce an intention to do any of the foregoing, in each case, without the prior written consent of RBC Capital Markets, LLC and Leerink Swann LLC on behalf of the underwriters.

### Rule 144

In general, under Rule 144 as currently in effect, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the three months preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public

information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then such person is entitled to sell such shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lockup agreements described above, within any three-month period, a number of shares that does not exceed the greater of:

one percent of the number of shares of common stock then outstanding, which will equal approximately 333,725 shares immediately after this offering; or

the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale,

and will not be eligible for resale until expiration of the lockup agreements to which they are subject.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

### **Stock Options**

On February 9, 2011, we filed a registration statement on Form S-8 under the Securities Act covering all of the shares of our common stock subject to options outstanding or reserved for issuance under our stock plans and shares of our common stock issued upon the exercise of options by employees. As of June 30, 2011, there were outstanding options to purchase a total of 2,812,872 shares of our common stock at a weighted average exercise price of \$4.85. The shares registered on Form S-8 are eligible for resale in the public market without restrictions, subject to volume limitations, manner of sale, notice and public information requirements of Rule 144 and will not be eligible for resale until expiration of the lockup agreements to which they are subject.

### **Registration Rights**

Certain holders of shares of common stock or common stock issuable upon exercise of warrants or their transferees are entitled to various rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates. See [Description of Capital Stock](#) [Registration Rights](#) for additional information.

---

## MATERIAL U.S. FEDERAL INCOME TAX AND ESTATE TAX

### CONSEQUENCES TO NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax and estate tax consequences of the ownership and disposition of our common stock to non-U.S. holders, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income or estate tax consequences different from those set forth below.

This summary also does not address the tax considerations arising under the laws of any non-U.S., state or local jurisdiction or under U.S. federal gift and estate tax laws, except to the limited extent below. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

banks, insurance companies or other financial institutions;

persons subject to the alternative minimum tax;

tax-exempt organizations;

controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid United States federal income tax;

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

persons that own, or are deemed to own, more than five percent of our capital stock (except to the extent specifically set forth below);

certain former citizens or long-term residents of the United States;

persons who hold our common stock as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction;

persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, for investment purposes); or

persons deemed to sell our common stock under the constructive sale provisions of the Code.

In addition, if a partnership or entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

**You are urged to consult your tax advisor with respect to the application of the United States federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the United States federal estate or gift tax rules or under the laws of any state, local, non-U.S. or other taxing jurisdiction or under any applicable tax treaty.**



**Non-U.S. Holder Defined**

For purposes of this discussion, you are a non-U.S. holder if you are any holder (other than a partnership or entity classified as a partnership for U.S. federal income tax purposes) that is not:

an individual citizen or resident of the United States;

a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof;

an estate whose income is subject to U.S. federal income tax regardless of its source; or

a trust (x) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (y) which has made an election to be treated as a U.S. person.

**Distributions**

We have not made any distributions on our common stock, and we do not plan to make any distributions for the foreseeable future. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30 percent of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. A non-U.S. holder of shares of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the non-U.S. holder's behalf, the non-U.S. holder will be required to provide appropriate documentation to the agent, which then will be required to provide certification to us or our paying agent, either directly or through other intermediaries.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, if an income tax treaty applies, attributable to a permanent establishment maintained by you in the United States) are exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates generally applicable to U.S. persons, net of certain deductions and credits. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30 percent or such lower rate as may be specified by an applicable income tax treaty.

### **Gain on Disposition of Common Stock**

You generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

the gain is effectively connected with your conduct of a U.S. trade or business (and, if an income tax treaty applies, the gain is attributable to a permanent establishment maintained by you in the United States);

you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or

our common stock constitutes a U.S. real property interest by reason of our status as a United States real property holding corporation for U.S. federal income tax purposes (an USRPHC ) at any time within the shorter of the five-year period preceding the disposition or your holding period for our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the applicable period described above.

If you are a non-U.S. holder described in the first bullet above, you will generally be required to pay tax on the gain derived from the sale (net of certain deductions or credits) under regular graduated U.S. federal income tax rates, and corporate non-U.S. holders described in the first bullet above may be subject to branch profits tax at a 30 percent rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30 percent tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses (even though you are not considered a resident of the United States). You should consult any applicable income tax or other treaties that may provide for different rules.

### **Federal Estate Tax**

Our common stock beneficially owned by an individual who is not a citizen or resident of the United States (as defined for United States federal estate tax purposes) at the time of death will generally be includable in the decedent's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

### **Backup Withholding and Information Reporting**

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the disposition of stock made to you may be subject to additional information reporting and backup withholding at a current rate of 28 percent unless you establish an exemption, for example by properly certifying your non-U.S. status on a Form W-8BEN or another

appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

#### **Recently Enacted Legislation Affecting Taxation of Our Common Stock Held by or Through Foreign Entities**

Recently enacted legislation generally will impose a U.S. federal withholding tax of 30 percent on dividends and the gross proceeds of a disposition of our common stock paid after December 31, 2012 to a foreign financial institution (as specially defined under these rules) unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). The legislation also will generally impose a U.S. federal withholding tax of 30 percent on dividends and the gross proceeds of a disposition of our common stock paid after December 31, 2012 to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our common stock.

**The preceding discussion of United States federal tax considerations is for general information only. It is not tax advice. Each prospective investor should consult its own tax advisor regarding the particular United States federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.**

## UNDERWRITING

Under the terms and subject to the conditions contained in the underwriting agreement, we and the Selling Stockholder have agreed to sell to the underwriters named below, for whom RBC Capital Markets, LLC and Leerink Swann LLC are acting as representatives, the following respective numbers of shares of common stock:

Name	Number of Shares
RBC Capital Markets, LLC	
Leerink Swann LLC	
Cowen and Company, LLC	
Wedbush Securities Inc.	
<b>Total</b>	

The underwriting agreement provides that the underwriters are obligated, severally and not jointly, to purchase all the shares of common stock offered by us. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 726,241 additional shares at the offering price less the underwriting discounts and commissions. If any shares are purchased with this over-allotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If the underwriters' option is exercised in full, the total price to the public would be \$        million, the total underwriters' discounts and commissions would be \$        million, and total proceeds to us would be \$        million. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock directly to the public at the offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$        per share. After the offering, the representatives may change the offering price and concession.

The following table summarizes the underwriting discounts and commissions that we and the Selling Stockholder will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	Per Share	Total Without Over- allotment	With Over-allotment
Public Offering Price	\$	\$	\$
Underwriting Discount and Commissions Paid by Us			
Underwriting Discount and Commissions Paid by the Selling Stockholder			
Proceeds to Us (before expenses)			
Proceeds to Selling Stockholder (before expenses)			

We estimate that the total expenses of the offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately \$ . The Selling Stockholder will bear the cost of all underwriting discounts and selling commissions applicable to the sale of common stock by it and expenses incurred by the Selling Stockholder for brokerage, accounting, tax or legal services or any other expenses incurred by the Selling Stockholder in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, and fees and expenses of our counsel and our auditors.

Our common stock is listed on The NASDAQ Global Market under the symbol ECYT.

We, all of our directors and executive officers, the Selling Stockholder, and certain additional stockholders, have agreed that, without the prior written consent of RBC Capital Markets, LLC and Leerink Swann LLC on behalf of the underwriters, we and they will not, during the period ending 90 days after the date of this prospectus, and, in specific circumstances, up to an additional 34 days (the lockup period ):

directly or indirectly, sell, offer, contract or grant any option to sell, short sell, grant any option, right or warrant to purchase, pledge, transfer, establish an open put equivalent position , lend or otherwise dispose of any shares of our common stock, options, rights or warrants to acquire shares of our common stock, or securities exchangeable or exercisable for or convertible into shares of our common stock owned either of record or beneficially;

enter into any swap or other arrangement that transfers, in whole or in part, the economic consequences of the ownership of our common stock; or

publicly announce an intention to do any of the foregoing.

These agreements are subject to certain exceptions, including:

in our case:

sales of common stock to the underwriters in this offering;

the award of options or other purchase rights or shares of our common stock pursuant to our employee benefits plans;

the filing by us of a registration statement on Form S-8 in respect of any shares issued under or the grant of any award pursuant to our employee benefits plans;

issuances of shares of common stock pursuant to the exercise of warrants or options which are outstanding on the date hereof; and

the entry into an agreement providing for the issuance of shares of common stock (including shares issuable in respect of securities convertible into or exercisable for common stock) in connection with acquisitions or joint ventures and the issuance of any such securities pursuant to any such agreement, provided that the number of shares issuable pursuant to this exception shall not exceed an aggregate of 10% of our fully-diluted shares of common stock outstanding as of the date this prospectus, plus the shares sold in this offering; provided any securities issuable under any such agreement are subject to similar lockup restrictions;

in the case of our executive officers, directors, the Selling Stockholder and certain additional stockholders:

transactions relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering;

transfers of shares of common stock or any security convertible into common stock as a bona fide gift;

distributions of shares of common stock or any security convertible into common stock to limited partners, general partners or stockholders;

transfers of shares of common stock or any security convertible into common stock to family members or a trust established for the benefit of family members;

transfers of shares of common stock or any security convertible into common stock to entities where the party to the lockup is the beneficial owner of all shares of common stock or our other securities held by the entity;

the receipt by the party of shares of common stock upon the exercise of an option or warrant or in connection with the vesting of restricted stock or restricted stock units;

the transfer of shares of common stock to the company in a transaction exempt from Section 16(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, solely in connection with the payment of taxes due in connection with any such exercise or vesting; and

the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of common stock so long as no sales are made under the plan during the lockup period; provided that, except in the case of open market purchases described above, any transferee agrees to be bound by the terms of the lockup and that, in all cases, no filing under Section 16(a) under the Exchange Act shall be required or voluntarily made to the extent applicable.

We have also agreed not to file any registration statement with respect to our common stock or other equity securities, or any securities convertible into or exercisable or exchangeable for common stock, and our directors, executive officers and other holders of our equity securities have waived all registration rights with respect to this offering.

We and the Selling Stockholder have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

In the ordinary course of business, certain of the underwriters and their affiliates have provided and may in the future provide financial advisory, investment banking and general financing and banking services for us and our affiliates for customary fees.

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act, including:

stabilizing transactions that permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum;

## Edgar Filing: ENDOCYTE INC - Form S-1

over-allotment, which involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that

they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by exercising their over-allotment option and/or purchasing shares in the open market;

syndicate covering transactions, which involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering; and

penalty bids, which permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The NASDAQ Global Market or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make Internet distributions on the same basis as other allocations.

#### **Notice to Prospective Investors in the EEA**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, which we refer to as a Relevant Member State, an offer to the public of any shares of common stock that are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;
- (c) by the underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive;



provided that no such offer of shares shall result in a requirement for the publication by us or any representative of a prospectus pursuant to Article 3 of the Prospectus Directive.

Any person making or intending to make any offer of shares within the EEA should only do so in circumstances in which no obligation arises for us or any of the underwriters to produce a prospectus for such offer. Neither we nor the underwriters have authorized, nor do they authorize, the making of any offer of shares through any financial intermediary, other than offers made by the underwriters which constitute the final offering of shares contemplated in this prospectus.

For the purposes of this provision, and your representation below, the expression an offer to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any shares under, the offer of shares contemplated by this prospectus will be deemed to have represented, warranted and agreed to and with us and each underwriter that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors (as defined in the Prospectus Directive), or in circumstances in which the prior consent of the representatives has been given to the offer or resale; or (ii) where shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

#### **Notice to Prospective Investors in the United Kingdom**

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, which we refer to as the Order, and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

#### **Notice to Prospective Investors in Switzerland**

The Prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations (CO) and the shares will not be listed on the SIX Swiss Exchange. Therefore,

the Prospectus may not comply with the disclosure standards of the CO and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the shares with a view to distribution.

#### **Notice to Prospective Investors in Israel**

The Prospectus is not, and under no circumstances is to be construed as an advertisement or a public offering of securities in Israel. Any public offer or sale of securities in Israel may be made only in accordance with the Israeli Securities Act-1968 (which requires, inter alia, the filing of a prospectus in Israel or an exemption therefrom).

### **LEGAL MATTERS**

The validity of the shares of common stock offered hereby will be passed upon for us by Baker & Daniels LLP, Indianapolis, Indiana. The underwriters are being represented by Davis Polk & Wardwell LLP, Menlo Park, California.

### **EXPERTS**

Ernst & Young LLP, independent registered public accounting firm, has audited our financial statements at December 31, 2010 and 2009, and for each of the three years in the period ended December 31, 2010, as set forth in their report. We have included and incorporated by reference our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

### **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission under the Exchange Act. We have also filed a registration statement on Form S-1 under the Securities Act with respect to the offering of common stock. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement. For further information with respect to us and shares of our common stock, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other documents are not necessarily complete. You may read and copy the registration statement, such reports and other information at the Public Reference Room of the Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at (800) SEC-0330.

The Securities and Exchange Commission also maintains an internet Website that contains reports, proxy statement and other information above issuers, like us, who file electronically with the Securities and Exchange Commission. The address of the site is [www.sec.gov](http://www.sec.gov).

### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission allows us to incorporate by reference information in this prospectus that we have filed with it. This means that we can disclose important information to you by referring you to another document already on file with the Securities and Exchange Commission. The information incorporated by reference is an important part of this prospectus, except for any information that is superseded by information that is included directly in this prospectus.

We incorporate by reference into this prospectus the following documents:

our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on March 18, 2011;

our proxy statement for our 2011 annual meeting of stockholders filed with the Securities and Exchange Commission on April 15, 2011;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed with the Securities and Exchange Commission on May 31, 2011; and

our Current Reports on Form 8-K filed with the Securities and Exchange Commission on June 2, 2011 and June 21, 2011.

We will provide to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of the reports and documents that have been incorporated by reference in this prospectus, at no cost. Any such request may be made by writing or telephoning us at the following address or phone number:

Corporate Secretary

Endocyte, Inc.

8901 Purdue Road

Suite 250

Indianapolis, IN 46268

(317) 876-1478

These documents may also be accessed through our internet website at [www.endocyte.com](http://www.endocyte.com) or as described under "Where You Can Find More Information" above. The information and other content contained on or linked from our internet website are not part of this prospectus.

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Balance Sheets</u>	F-3
<u>Statements of Operations</u>	F-4
<u>Statements of Convertible Preferred Stock, Stockholders' Equity (Deficit) and Comprehensive Loss</u>	F-5
<u>Statements of Cash Flows</u>	F-6
<u>Notes to Financial Statements</u>	F-7

F-1

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Endocyte, Inc.

We have audited the accompanying balance sheets of Endocyte, Inc. as of December 31, 2009 and 2010, and the related statements of operations, convertible preferred stock, stockholders' equity (deficit) and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Endocyte, Inc. at December 31, 2009 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Indianapolis, Indiana

March 18, 2011

**ENDOCYTE, INC.****BALANCE SHEETS**

	<b>December 31,</b>		<b>March 31,</b>
	<b>2009</b>	<b>2010</b>	<b>2011</b>
			<b>(unaudited)</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 8,699,372	\$ 16,872,783	\$ 13,217,363
Short-term investments	15,210,378		81,229,845
Prepaid expenses	373,475	2,637,783	910,816
Other assets		539,659	483,464
<b>Total current assets</b>	<b>24,283,225</b>	<b>20,050,225</b>	<b>95,841,488</b>
Property and equipment, net	923,051	863,008	813,197
Deferred financing costs	61,419	300,985	496,185
<b>Total assets</b>	<b>\$ 25,267,695</b>	<b>\$ 21,214,218</b>	<b>\$ 97,150,870</b>
<b>Liabilities, Convertible Preferred Stock, and Stockholders Equity (Deficit)</b>			
Current liabilities:			
Accounts payable	\$ 1,789,534	\$ 2,836,395	\$ 3,482,420
Accrued wages and benefits	459,288	155,102	434,739
Accrued interest payable	78,856	140,427	125,938
Current portion of long-term debt	6,258,324	4,318,078	5,454,945
Preferred stock warrants	221,031	223,032	
<b>Total current liabilities</b>	<b>8,807,033</b>	<b>7,673,034</b>	<b>9,498,042</b>
Long-term debt, net of current portion	2,718,742	10,485,811	9,380,982
Subordinated notes		9,529,413	
Other liabilities		637,500	637,500
<b>Total liabilities</b>	<b>11,525,775</b>	<b>28,325,758</b>	<b>19,516,524</b>
Convertible preferred stock, \$0.001 par value 14,310,992 shares authorized; 11,747,563 shares issued and outstanding at December 31, 2009 and 2010	89,799,483	89,799,483	
Stockholders' equity (deficit):			
Common stock and additional paid-in capital: \$0.001 par value, 100,000,000 shares authorized; 1,133,579, 1,203,228 and 29,699,276 shares issued and outstanding at December 31, 2009 and 2010 and March 31, 2011	1,133	1,203	29,699
Additional paid-in capital	1,915,312	1,156,681	182,858,870
Accumulated other comprehensive income	2,177		3,280
Retained deficit	(77,976,185)	(98,068,907)	(105,257,503)
<b>Total stockholders' equity (deficit)</b>	<b>(76,057,563)</b>	<b>(96,911,023)</b>	<b>77,634,346</b>
<b>Total liabilities, convertible preferred stock, and stockholders' equity (deficit)</b>	<b>\$ 25,267,695</b>	<b>\$ 21,214,218</b>	<b>\$ 97,150,870</b>

*See accompanying notes.*

**ENDOCYTE, INC.**

**STATEMENTS OF OPERATIONS**

	2008	Year Ended December 31, 2009	2010	Three Months Ended March 31, 2010 2011 (unaudited)	
<b>Revenue:</b>					
Grant revenue	\$	\$	\$	\$	\$
Collaboration revenue	500,000	3,000,000			
<b>Total revenue</b>	<b>500,000</b>	<b>3,000,000</b>			
<b>Operating expenses:</b>					
Research and development	13,323,318	14,803,741	14,560,821	3,899,416	4,438,382
General and administrative	4,785,466	3,934,259	6,039,145	1,474,998	2,074,362
<b>Total operating expenses</b>	<b>18,108,784</b>	<b>18,738,000</b>	<b>20,599,966</b>	<b>5,374,414</b>	<b>6,512,744</b>
<b>Loss from operations</b>	<b>(17,608,784)</b>	<b>(15,738,000)</b>	<b>(20,599,966)</b>	<b>(5,374,414)</b>	<b>(6,512,744)</b>
<b>Other income (expense):</b>					
Interest income	682,433	49,315	7,683	3,115	19,025
Interest expense	(1,579,297)	(1,435,988)	(1,064,556)	(249,435)	(697,615)
Other income	12,772	118,988	1,564,117	12,179	2,738
<b>Net loss</b>	<b>(18,492,876)</b>	<b>(17,005,685)</b>	<b>(20,092,722)</b>	<b>(5,608,555)</b>	<b>(7,188,596)</b>
<b>Net loss per share basic and diluted</b>	<b>\$ (20.54)</b>	<b>\$ (18.67)</b>	<b>\$ (21.77)</b>	<b>\$ (6.16)</b>	<b>\$ (0.43)</b>
<b>Weighted-average number of common shares used in net loss per share calculation basic and diluted</b>	<b>900,127</b>	<b>911,066</b>	<b>923,007</b>	<b>911,066</b>	<b>16,907,823</b>

*See accompanying notes.*

**ENDOCYTE, INC.**

**STATEMENTS OF CONVERTIBLE PREFERRED STOCK, STOCKHOLDERS EQUITY (DEFICIT) AND COMPREHENSIVE LOSS**

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Deficit	Total	Comprehensive Loss
	Shares	Amount	Shares	Amount					
Balances, December 31, 2007	8,465,107	\$ 63,197,046	1,090,127	\$ 1,090	\$ 1,230,365	\$ (71,639)	\$ (42,477,624)	\$ (41,317,808)	\$ (13,604,232)
Exercise of stock options			43,452	43	45,907			45,950	
Stock-based compensation					257,163			257,163	
Net loss							(18,492,876)	(18,492,876)	(18,492,876)
Unrealized gain on securities						95,202		95,202	95,202
Balances, December 31, 2008	8,465,107	63,197,046	1,133,579	1,133	1,533,435	23,563	(60,970,500)	(59,412,369)	(18,397,674)
Issuance of Series C-3 convertible preferred stock, net	3,282,456	26,602,437							
Stock-based compensation					381,877			381,877	
Net loss							(17,005,685)	(17,005,685)	(17,005,685)
Unrealized loss on securities						(21,386)		(21,386)	(21,386)
Balances, December 31, 2009	11,747,563	89,799,483	1,133,579	1,133	1,915,312	2,177	(77,976,185)	(76,057,563)	(17,027,071)
Fair value adjustment of the subordinated notes					(1,429,412)			(1,429,412)	
Exercise of stock options			69,649	70	147,219			147,289	
Stock-based compensation					523,562			523,562	
Net loss							(20,092,722)	(20,092,722)	(20,092,722)
Unrealized loss on securities						(2,177)		(2,177)	(2,177)
Balances, December 31, 2010	11,747,563	89,799,483	1,203,228	1,203	1,156,681		(98,068,907)	(96,911,023)	(20,094,899)
Fair value adjustment of the subordinated					(644,118)			(644,118)	



Edgar Filing: ENDOCYTE INC - Form S-1

notes									
Net proceeds from initial public offering			14,375,000	14,375	78,153,468			78,167,843	
Conversion of preferred stock to common stock	(11,747,563)	(89,799,483)	11,747,563	11,747	89,787,735			89,799,482	
Reclassify warrants to equity					223,031			223,031	
Conversion of subordinated notes to common stock			2,335,823	2,336	13,981,441			13,983,777	
Exercise of stock options			37,662	38	16,858			16,896	
Stock-based compensation					183,774			183,774	
Net loss							(7,188,596)	(7,188,596)	(7,188,596)
Unrealized gain on securities						3,280		3,280	3,280
Balances									
March 31, 2011 (unaudited)	\$	\$	29,699,276	\$ 29,699	\$ 182,858,870	\$ 3,280	\$ (105,257,503)	\$ 77,634,346	\$ (7,185,316)

See accompanying notes.

## ENDOCYTE, INC.

## STATEMENTS OF CASH FLOWS

	Year Ended December 31,			Three Months Ended	
	2008	2009	2010	2010	2011
					(unaudited)
<b>Operating activities</b>					
Net loss	\$ (18,492,876)	\$ (17,005,685)	\$ (20,092,722)	\$ (5,608,555)	\$ (7,188,596)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation	346,361	231,890	260,571	58,954	67,420
Stock-based expense	257,163	381,877	523,562	124,259	183,774
Gain on disposal of property and equipment		3,588		(5,278)	
Loss on extinguishment of debt			144,284		
Accretion of bond discount	(26,877)	(17,250)	(3,075)	(1,174)	33,048
Non cash interest expense	250,004	210,809	160,844	37,794	328,392
Decrease in fair value on preferred stock warrants	(11,912)	(74,118)	(237,457)	(5,294)	
Extinguishment of liability			18,389		
Change in operating assets and liabilities:					
Accounts and accrued interest receivable	1,074,662				(97,867)
Prepaid expenses and other assets	(192,358)	269,326	(2,323,788)	34,622	1,509,776
Accounts payable	(366,944)	493,263	(118,140)	(27,029)	948,292
Accrued interest, wages, benefits and other liabilities	(123,977)	109,959	922,386	(180,809)	61,988
Net cash used in operating activities	(17,286,754)	(15,396,341)	(20,745,146)	(5,572,510)	(4,153,773)
<b>Investing activities</b>					
Purchases of property and equipment	(459,770)	(155,441)	(200,527)	(71,096)	(17,610)
Proceeds from disposal of property and equipment				5,278	
Purchases of investments	(19,457,362)	(35,496,785)	(12,295,754)	(12,295,753)	(111,258,286)
Proceeds from sale of investments	15,489,229	33,785,889	27,507,030	14,708,200	29,998,673
Net cash provided by (used in) investing activities	(4,427,903)	(1,866,337)	15,010,749	2,346,629	(81,277,223)
<b>Financing activities</b>					
Proceeds from issuance of convertible preferred stock, net of issuance costs		26,602,437		(865)	
Proceeds from borrowings, net of issuance costs	4,930,697		14,857,292		
Proceeds from issuance of subordinated convertible notes, net of issuance costs			8,040,837		3,590,837
Principal payments on borrowings	(705,327)	(5,518,941)	(9,035,548)	(1,506,229)	
Proceeds from initial public offering, net of issuance costs					78,167,843
Loss on Extinguishment of debt			(102,062)		
Proceeds from the exercise of stock options	45,950		147,289		16,896
Net cash provided by financing activities	4,271,320	21,083,496	13,907,808	(1,507,094)	81,775,576
Net increase (decrease) in cash and cash equivalents	(17,443,337)	3,820,818	8,173,411	(4,732,975)	(3,655,420)
Cash and cash equivalents at beginning of period	22,321,891	4,878,554	8,699,372	8,699,372	16,872,783
Cash and cash equivalents at end of period	\$ 4,878,554	\$ 8,699,372	\$ 16,872,783	\$ 3,966,397	\$ 13,217,363

See accompanying notes.



**ENDOCYTE, INC.****NOTES TO FINANCIAL STATEMENTS****1. Nature of Business and Organization**

Endocyte, Inc. (the Company) was incorporated on December 6, 1995. The Company is a biopharmaceutical company developing targeted therapies for the treatment of cancer and inflammatory diseases. The Company uses its proprietary technology to create novel small molecule drug conjugates, or SMDCs, and companion imaging diagnostics. The SMDCs actively target receptors that are over-expressed on diseased cells, relative to healthy cells. This targeted approach is designed to enable the treatment of patients with a highly active drug at greater doses, delivered more frequently, and over longer periods of time than would be possible with the untargeted drug alone. The Company is also developing companion imaging diagnostics for each of its SMDCs that are designed to identify the patients whose disease over-expresses the target of the therapy and who are therefore more likely to benefit from treatment.

*Initial Public Offering*

On February 9, 2011, the Company completed its initial public offering of 14,375,000 shares of common stock, including 1,875,000 shares of common stock pursuant to the exercise of the over-allotment option by the underwriters. Proceeds, net of underwriting discounts, commissions and other transaction costs were \$78.2 million. Upon the closing of the offering, the Subordinated Notes (see Note 8) automatically converted into 2,335,823 shares of common stock using a conversion price of \$5.10 per share (85% of the original issue price of the shares sold in the initial public offering), all of the outstanding convertible preferred shares were converted to common stock, and the outstanding warrants to purchase Series C-3 preferred stock were converted to warrants to purchase common stock. Additionally, the warrants were reclassified from a liability to equity. The following table sets forth share amounts of common stock outstanding after the closing of the offering:

	<b>In Shares</b>
Common Stock outstanding prior to offering	1,203,228
Initial public offering shares	14,375,000
Conversion of convertible preferred stock	11,747,563
Conversion of subordinated notes	2,335,823
<b>Total Common Stock outstanding after initial public offering</b>	<b>29,661,614</b>

*Stock Split*

On January 10, 2011, the Company effected a 1.00 for 1.91 reverse stock split. All historical common stock and per share information has been changed to reflect the stock split.

**2. Significant Accounting Policies***Unaudited Interim Financial Data*

The accompanying unaudited March 31, 2011 balance sheet, the statements of operations, and cash flows for the three months ended March 31, 2010 and 2011, and the statements of convertible preferred stock and stockholders' deficit for the three months ended March 31, 2011 and the related interim information contained within the notes to the financial statements are prepared in accordance with U.S.

---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

generally accepted accounting principles ( GAAP ) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ( SEC ). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals and revisions of estimates, considered necessary for a fair presentation of the accompanying interim financial statements have been included. Interim results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011 or any other future period.

*Basis of Presentation*

The financial statements are prepared in conformity with U.S. generally accepted accounting principles ( GAAP ). The Company has made estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Subsequent events have been evaluated through the date of issuance, which is the same as the date the Form 10-K is filed with the Securities Exchange Commission.

*Cash and Cash Equivalents*

The Company considers cash and all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents, except for those funds managed by the Company's investment manager, which are classified as short-term investments. Cash equivalents consist primarily of money market instruments.

*Short-Term Investments*

Short-term investments consist primarily of investments with original maturities greater than three months and less than one year when purchased. Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. All securities held at March 31, 2011, were classified as available-for-sale as defined by the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 320, *Investments - Debt and Equity Securities* ( ASC 320 ). The Company had no investment securities at December 31, 2010. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income. The Company considers and accounts for other-than-temporary impairments according to ASC 320. The cost of securities sold is based on the specific-identification method. Discounts and premiums on debt securities are amortized to interest income and expense over the term of the security.

*Prepaid Expenses*

Prepaid expenses as of December 31, 2010 include \$1.9 million of deferred costs for legal, accounting and other direct costs related to the Company's initial public offering. These costs were reclassified to additional paid-in capital during the three months ended March 31, 2011 as a reduction of the initial public offering proceeds.

---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

*Property and Equipment*

Property and equipment are stated at cost and are being depreciated using the straight-line method over estimated useful lives, which range from three to seven years.

*Licenses and Patents*

Licenses and patent costs are expensed as incurred as the Company does not believe there is an alternate future use for the costs. Licenses are classified as research and development and patents are classified as general and administrative expenses in the statements of operations.

*Long-Lived Assets*

The Company reviews long-lived assets, including property and equipment, for impairment when events or changes in business conditions indicate that their full carrying value may not be fully recoverable.

*Preferred Stock Warrants*

The Company accounts for its preferred stock warrants under ASC Topic 480, *Distinguishing Liabilities from Equity*. The preferred stock warrants are recorded at fair value and any changes to fair value are recorded as other income (expense).

The Company recognizes revenues from license agreements when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and there is reasonable assurance that the related amounts are collectible in accordance with ASC Topic 605, *Revenue Recognition* ( ASC 605 ).

The Company has generated revenues as a result of an out-license agreement. The Company immediately recognizes the full amount of milestone payments due upon the achievement of the milestone event if the event is substantive, objectively determinable, and represents an important point in the development life cycle of the product. Milestone payments earned are recorded in collaboration revenue.

*Research and Development Expenses*

Research and development expenses represent costs associated with the ongoing development of SMDCs and companion imaging diagnostics and include salaries, supplies, and expenses for clinical trials. The Company records accruals for clinical trial expenses based on the estimated amount of work completed. The Company monitors patient enrollment levels and related activities to the extent possible through internal reviews, correspondence, and discussions with research organizations.

Upfront payments made in connection with business collaborations and research and development arrangements are evaluated under ASC Subtopic 730-20, *Research and Development Arrangements*. Upfront payments made in connection with business development collaborations are expensed as research and development costs, as the assets acquired do not have alternative future use. Amounts related to future research and development are capitalized as prepaid research and development and are expensed over the service period based upon the level of services provided. To date, no significant amounts have been capitalized.

---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

*Stock-Based Compensation*

The Company has accounted for all options granted subsequent to January 1, 2006, pursuant to ASC Topic 718, *Compensation - Stock Compensation* ( ASC 718 ), which requires the recognition of the fair value or calculated value for nonpublic entities, of stock-based compensation in net income. Stock-based compensation consists of stock options, which are granted to employees at exercise prices at or above the fair market value of the Company's common stock on the dates of grant. The Company used the calculated value to measure its stock-based compensation.

Prior to January 1, 2006, in accordance with ASC 718, the Company used the intrinsic value method to account for stock options. The Company issued its stock options at exercise prices at or above the estimated fair market value of the Company's common stock on the dates of grant. Accordingly, no compensation expense was recognized for options granted to employees in the prior periods.

The Company elected the prospective transition method for the adoption of ASC 718, which requires that nonpublic companies that had previously measured compensation cost using the minimum value method continue to account for equity awards outstanding at the date of adoption in the same manner as they had been accounted for prior to adoption. For all awards granted, modified, or settled after the date of adoption, the Company recognizes compensation cost based on the grant-date value estimated in accordance with the provisions of ASC 718.

*Net Loss Per Share*

The Company calculates basic net loss per share based on the weighted-average number of outstanding common shares. The Company calculates diluted net loss per share based on the weighted-average number of outstanding common shares plus the effect of dilutive securities.

*Income Taxes*

The Company accounts for income taxes under the liability method in accordance with the provision of ASC Topic 740, *Income Taxes* ( ASC 740 ). ASC 740 requires recognition of deferred taxes to provide for temporary differences between financial reporting and tax basis of assets and liabilities. Deferred taxes are measured using enacted tax rates expected to be in effect in a year in which the basis difference is expected to reverse. The Company continues to record a valuation allowance for the full amount of deferred tax assets, which would otherwise be recorded for tax benefits relating to operating loss and tax credit carryforwards, as realization of such deferred tax assets cannot be determined to be more likely than not.

In June 2006, the FASB issued authoritative guidance on accounting for uncertainty in income taxes, amended by Accounting Standards Update No. ( ASU ) 2009-06 in September 2009 on accounting for uncertain tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted the provisions set forth in ASC 740, including ASU No. 2009-06 on accounting for uncertain tax positions effective January 1, 2009. At the date of adoption and during the year ended December 31, 2009, the Company had no unrecognized tax benefits and expects no significant changes in

---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

unrecognized tax benefits in the next 12 months. If incurred, the Company will classify any interest and penalties as a component of tax expense. To date, there have been no interest or penalties charged to the Company in relation to the underpayment of income taxes. The Company files its tax returns as prescribed.

*Segment Information*

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment and the Company operates in only one geographic segment.

**3. New Accounting Pronouncements**

*Recently Adopted Accounting Standards*

Effective January 1, 2009, the Company adopted ASC 808, *Collaborative Arrangements*. This guidance defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. This guidance has been applied retrospectively to all prior periods presented for significant collaborative arrangements existing as of the effective date. The adoption did not impact the financial statements.

Effective January 1, 2009, the Company adopted clarifying guidance issued by the FASB on other-than-temporary impairments on debt securities, codified within ASC 320-10, *Investments - Debt and Equity Securities*, on January 1, 2009. This guidance amends the other-than-temporary recognition guidance for debt securities and requires additional annual disclosures of other-than-temporary impairments on debt and equity securities. Pursuant to the new guidance, an other-than-temporary impairment has occurred if a company does not expect to recover the entire amortized cost basis of the security. In this situation, if the company does not intend to sell the impaired security, and it is not more likely than not it will be required to sell the security before the recovery of its amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings is limited to the portion attributed to the credit loss. The remaining portion of the other-than-temporary impairment is then recorded in other comprehensive income (loss). This guidance has been applied to existing and new securities as of January 1, 2009. The applicable disclosures are included in Note 4. The implementation of this guidance was not material to the Company's financial position or results of operations, and there was no cumulative effect adjustment.

Effective January 1, 2009, the Company adopted FASB authoritative guidance relating to accounting for uncertainty in income taxes, under ASC 740, amended by ASU 2009-06. This guidance requires that realization of an uncertain income tax position be more likely than not (i.e., greater than 50 percent likelihood of receiving a benefit) before it can be recognized in the financial statements. Furthermore, this guidance prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. The implementation of this interpretation had no impact on the financial statements.



---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

In May 2009, the FASB issued ASC 855, *Subsequent Events*. ASC 855 provides authoritative accounting literature and disclosure requirements for material events occurring subsequent to the balance sheet date and prior to the issuance of the financial statements. The Company adopted this guidance as of December 31, 2009. The implementation of this statement had no effect on the Company's financial position or results of operations.

*Recently Issued Accounting Standards*

In October 2009, the FASB ratified ASU No. 2009-13 guidance related to revenue recognition that amends the previous guidance on arrangements with multiple deliverables, within ASC 605-25, *Revenue Recognition - Multiple Element Arrangements*. This guidance provides principles and application guidance on whether multiple deliverables exist, how the arrangements should be separated, and how the consideration should be allocated. It also clarifies the method to allocate revenue in an arrangement using the estimated selling price. This guidance is effective for the Company as of January 1, 2011, and is not expected to be material to the Company's financial position or results of operations.

In April 2010, the FASB ratified ASU No. 2010-17 guidance related to the milestone method of revenue recognition. The ASU provides guidance on defining a milestone under ASC 605. This guidance states that an entity can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. This guidance is effective for the Company as of January 1, 2011, and is not expected to be material to the Company's financial position or results of operations.

**4. Short-Term Investments**

Effective January 1, 2008, the Company adopted ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements.

ASC 820 establishes a three-level valuation hierarchy for fair value measurements. These valuation techniques are based upon the transparency of inputs (observable and unobservable) to the valuation of an asset or liability as of the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

*Level 1* Valuation is based on quoted prices for identical assets or liabilities in active markets.

*Level 2* Valuation is based on quoted prices for similar assets or liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for the full term of the financial instrument.

*Level 3* Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

The fair value of the Company's fixed income securities is based on a market approach using quoted market values.

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

The following table summarize the fair value of short-term investments:

Description	Cost	Level 1	Fair Value (Carrying Value)
<b>As of December 31, 2009:</b>			
Certificate of deposit	\$ 500,000	\$ 500,000	\$ 500,000
U.S. government agency obligations	14,708,200	14,710,378	14,710,378
	\$ 15,208,200	\$ 15,210,378	\$ 15,210,378
<b>As of March 31, 2011:</b>			
U.S. Treasuries	\$ 78,221,775	\$ 78,225,189	\$ 78,225,189
U.S. Government agency obligations	3,004,790	3,004,656	3,004,656
	\$ 81,226,565	\$ 81,229,845	\$ 81,229,845

Total unrealized gross gains were \$2,177 and \$0 for the year ended December 31, 2009 and 2010, respectively, and \$4,392 for the three months ended March 31, 2011. There were no unrealized gross losses for the year ended December 31, 2009 and 2010, and total unrealized gross losses were \$1,112 for the three months ended March 31, 2011. The Company does not consider any of the unrealized losses to be other-than-temporary impairments. The Company held no investment securities as of December 31, 2010.

**5. Property and Equipment**

Property and equipment consisted of the following:

	Estimated Useful Lives	December 31,		March 31,
		2009	2010	2011
				(Unaudited)
Laboratory equipment	7	\$ 2,349,175	\$ 2,453,788	\$ 2,469,108
Office equipment and software	3-5	513,394	582,072	584,359
Leasehold improvements	7	115,009	140,101	140,101
		2,977,578	3,175,961	3,193,568
Less accumulated depreciation		(2,054,527)	(2,312,953)	(2,380,371)
		\$ 923,051	\$ 863,008	\$ 813,197

The total amount of depreciation expense for the year ended December 31, 2008, 2009 and 2010 were \$346,361, \$231,890 and \$260,571 respectively, and for the three month period ended March 31, 2010 and 2011 were \$58,954 and \$67,420.



**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**6. Notes Payable**

Long-term debt consisted of the following:

	December 31, 2009	December 31, 2010	March 31, 2011 (Unaudited)
Note payable to bank, with interest rate of 0.5% below prime (2.75% at December 31, 2009), monthly payments through October 2010	\$ 58,965	\$	\$
Notes payable to GECC and Oxford, with fixed interest rate of 7.24% above three-year Treasury rate (10.56% at December 31, 2009), monthly payments through March 2011	5,659,771		
Notes payable to GECC and Oxford, with fixed interest rate of 7.24% above three-year Treasury rate (10.51% at December 31, 2009), monthly payments through July 1 2011	3,316,812		
Notes payable to Mid-Cap and SVB, with fixed interest rate of 9.75%, monthly payments through September 1, 2013		15,000,000	15,000,000
	9,035,548	15,000,000	15,000,000
Less unamortized discount	(58,482)	(196,111)	(164,072)
	8,977,066	14,803,889	14,835,928
Less current portion, including unamortized discount	(6,258,324)	(4,318,078)	(5,454,945)
	\$ 2,718,742	\$ 10,485,811	\$ 9,380,983

In 2007, the Company obtained a \$15.0 million loan commitment from General Electric Capital Corporation ( GECC ) and Oxford Finance Corporation ( Oxford ). The loan is collateralized by a security interest in all of the Company s assets, excluding intellectual property. The loan includes customary covenants, including those that require prior written consent of the lenders before the Company can incur or prepay indebtedness, create additional liens, sell, or transfer any material portion of its assets. The loan agreement also contains customary events of default, and also includes a material adverse effect clause. In connection with this loan, the Company issued warrants to the lenders to purchase an aggregate of 69,294 shares of Series C-3 convertible preferred stock. The fair value of the preferred stock warrants issued was based on observable inputs using quoted market values and the income approach as derived by the Black-Scholes model. The terms of these preferred stock warrants and the fair value assumptions and inputs are consistent with Note 7.

In August, 2010 the Company obtained a \$15.0 million loan commitment from Mid-Cap and SVB to pay-off the existing loan commitment from GECC and Oxford that was set to mature in March and July 2011, and to fund research and development and corporate purposes. Upon execution of the agreement in August 2010, the Company drew \$10.0 million in principal. In December 2010, the Company amended their term loan arrangement with Mid-Cap and SVB in order to access the remaining tranche of \$5.0 million. The Company is required to make interest only payments each month through March 2011, and principal and interest payments of \$566,612 monthly starting April 1, 2011. The loan is collateralized by a security interest in all of the Company s assets, excluding intellectual property. The loan includes

**ENDOCYTE, INC.****NOTES TO FINANCIAL STATEMENTS (Continued)**

customary covenants, including those that require prior written consent of the lenders before the Company can incur or prepay indebtedness, create additional liens, sell, or transfer any material portion of its assets. The loan agreement also contains customary events of defaults, and also includes a material adverse effect clause. In connection with the loan, the Company issued warrants to lenders to purchase an aggregate of 64,674 shares of Series C-3 convertible preferred stock. The fair value of the preferred stock warrants issued was \$219,322 on the dates of issuance and was based on observable inputs using quoted market values and the income approach as derived by the Black-Scholes model. The terms of these preferred stock warrants and the fair value assumptions and inputs are detailed in Note 7.

The notes payable to bank are collateralized by certain property and equipment of the Company. Interest paid was \$1,202,674, \$1,272,942, and \$842,141 for the year ended December 31, 2008, 2009, 2010, respectively.

Aggregate maturities of debt due after December 31, 2010, are as follows:

2011	\$ 4,433,233
2012	6,021,052
2013	4,545,715
	15,000,000
Less unamortized discount	(196,111)
	\$ 14,803,889

**7. Preferred Stock Warrants**

In 2007, the Company issued warrants as consideration in connection with its loan commitment from GECC and Oxford to purchase 69,294 of Series C-3 convertible preferred stock, maturing in 2017. These preferred stock warrants were exercisable upon issuance, and no contingent conversion feature exists. Any Series C-3 convertible preferred stock issued upon exercise would maintain the rights and conversion features set forth in Note 10.

In August 2010 and December 2010, the Company issued warrants as consideration in connection with its loan commitment from Mid-Cap and SVB to purchase either Series C-3 preferred stock or preferred stock offered in a subsequent offering. The number of preferred stock warrants issued was based on the Series C-3 convertible preferred stock and a \$8.12 per share exercise price. The preferred stock warrants will mature in 2020, are exercisable upon issuance and do not contain contingent conversion features. Upon exercise of the warrants, the underlying shares would maintain the rights and conversion features set forth in Note 9 for the Series C-3 convertible preferred stock.

**ENDOCYTE, INC.****NOTES TO FINANCIAL STATEMENTS (Continued)**

The liability is measured at fair value, and any changes to fair value are recorded in the statement of operations as other income (expense). The fair value of the GECC and Oxford preferred stock warrants was determined using the Black-Scholes valuation model as of December 31, 2009 and 2010 based upon the following assumptions:

	<b>December 31,</b>	
	<b>2009</b>	<b>2010</b>
Exercise price	\$ 8.12	\$ 8.12
Convertible preferred stock price	\$ 8.12	\$ 6.00
Risk-free interest rate	3.12%	2.9-3.7%
Expected life	8 years	7-10 years
Dividend yield	0.00%	0.00%
Expected volatility	27.69%	22.69-29.55%

The fair value of the preferred stock warrants is based upon observable inputs using quoted market values and the income approach as derived by the Black-Scholes model. Volatility is derived from the historical volatility of the NASDAQ Biotechnology Index over the remaining expected life of the warrant. The warrants contain anti-dilution and change in control provisions that can impact conversion.

The carrying and fair values of the preferred stock warrants are \$221,031 and \$223,032 as of December 31, 2009 and 2010, respectively. The preferred stock warrants are classified as Level 2 within the ASC 820 fair value hierarchy. The Company recorded other income in 2008, 2009 and 2010 of \$11,912, \$74,118, and \$219,068, respectively, due to the change in fair value on the warrants. Upon the closing of the initial public offering, the warrants were reclassified from a current liability to additional paid in capital at their carrying and fair value.

**8. Subordinated Notes**

In December 2010 and January 2011, the Company issued \$8.1 million and \$3.7 million, respectively, of Subordinated Convertible Promissory Notes (the Subordinated Notes). The Subordinated Notes, plus accrued and unpaid interest thereon, were converted into 2,335,823 shares of common stock upon the closing of the initial public offering on February 9, 2011, using a conversion price of \$5.10 per share (85% of offering price). As of December 31, 2010, the Subordinated Notes were treated as share-settled debt under ASC 480-10-25-14 and were recorded at fair value. The Subordinated Notes accrued interest in kind at an annual rate of 10.0 percent.

**9. Leases**

Future minimum lease payments for noncancellable operating leases as of December 31, 2010, are:

2011	\$ 157,021
2012	80,543
2013	82,627
2014	84,826
2015	79,696
Total minimum lease payments	\$ 484,713

**ENDOCYTE, INC.****NOTES TO FINANCIAL STATEMENTS (Continued)**

Rent expense for operating leases was \$336,311, \$355,601, and \$367,144 for the year ended December 31, 2008, 2009, and 2010, respectively.

**10. Convertible Preferred Stock**

On July 29, 2009, the Company increased the number of Series C-3 convertible preferred stock authorized for issuance to 5,235,602 shares. On October 8, 2009, the Company increased the number of Series C-3 convertible preferred stock authorized for issuance to 5,549,738 shares. Between August 3, 2009 and October 13, 2009, the Company sold 3,282,456 shares of Series C-3 convertible preferred stock for \$8.12 per share for proceeds totaling \$26,645,524, net of offering costs of \$43,097. In December 2010, the Company increased the number of Series C-3 convertible preferred stock authorized for issuance to 7,643,979 shares to allow for the conversion of the Subordinated Notes and the issuance of Series C-3 warrants associated with the Company's credit facility.

The Company's total outstanding convertible preferred stock, with a par value of \$0.001 per share, consisted of the following as of December 31, 2010:

<b>Convertible Preferred Stock</b>	<b>Shares Authorized</b>	<b>Shares Issued</b>	<b>Price per Share</b>	<b>Total Proceeds (Net of Offering Costs)</b>
Series A-1	750,261	750,167	\$ 1.91	\$ 1,470,370
Series A-2	241,884	241,634	5.73	1,430,749
Series B	936,649	936,241	8.12	7,530,180
Series C-1	1,937,172	1,895,765	8.12	15,320,640
Series C-2	2,801,047	2,787,791	8.12	22,447,353
Series C-3	7,643,979	5,135,965	8.12	41,600,191
				\$ 89,799,483

The Company's total proceeds, net of offering costs, for its outstanding convertible preferred stock, with a par value of \$0.001 per share, consisted of the following:

<b>Convertible Preferred Stock</b>	<b>December 31,</b>	
	<b>2009</b>	<b>2010</b>
Series A-1	\$ 1,470,370	\$ 1,470,370
Series A-2	1,430,749	1,430,749
Series B	7,530,180	7,530,180
Series C-1	15,320,640	15,320,640
Series C-2	22,447,353	22,447,353
Series C-3	41,600,191	41,600,191
	\$ 89,799,483	\$ 89,799,483

Following is a description of the conversion, dividends, liquidation, and voting characteristics of the Company's convertible preferred stock.





---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

*Conversion.* Each share of the Company's convertible preferred stock may be converted at any time into shares of common stock at its conversion price at the option of the stockholder. The conversion price, which is \$1.91 for the Series A-1, \$5.73 for the Series A-2 and \$8.12 per share for the Series B, C-1, C-2 and C-3 convertible preferred stock at December 31, 2009, adjusts proportionally for stock splits, stock dividends, and recapitalizations. If the Company issues or is deemed to have issued additional shares of common stock at a purchase price less than the applicable conversion price, exclusive of common stock options and certain other excluded issuances, the conversion price will be adjusted based on a weighted-average formula. The weighted-average formula is based upon the initial conversion price and common stock outstanding prior to issuance of additional shares of common stock. The conversion price is adjusted by multiplying it by a fraction, the numerator of which is the common stock outstanding prior to the issuance of additional shares of common stock plus the number of additional shares that would be purchased based upon the consideration received through the issuance and the conversion price, if any, and the denominator of which is the number of shares of common stock outstanding prior to the issuance of additional shares of common stock plus the number of additional shares of common stock issued or deemed issued.

The convertible preferred stock converts to common stock automatically at the applicable conversion price upon approval of holders of at least 50 percent of the outstanding shares of the respective series of convertible preferred stock. All shares of convertible preferred stock converted into common stock on a one-for-one basis upon the closing of the Company's initial public stock offering on February 9, 2011. At December 31, 2010 and December 31, 2009, 11,747,563 shares of common stock were reserved for issuance upon conversion of convertible preferred stock.

*Dividends.* The holders of the convertible preferred stock are entitled to receive dividends when and if declared by the Board from legally available earnings at the rate of \$0.15 per share for the Series A-1, \$0.46 per share for the Series A-2 and \$0.65 per share for the Series B, C-1, C-2 and C-3 convertible preferred stock. The full declared but unpaid dividend on convertible preferred stock must be paid prior to any dividend on the common stock. No dividends had been declared through December 31, 2010.

*Liquidation.* The holders of the Series A-1 and A-2 convertible preferred stock are entitled to receive \$1.91 and \$5.73 per share, respectively, plus any declared but unpaid dividends in the event of liquidation of the Company. The holders of the Series B, C-1, C-2, and C-3 convertible preferred stock are entitled to receive \$8.12 per share plus any declared but unpaid dividends in the event of liquidation of the Company. The holders of Series B, C-1, C-2, and C-3 convertible preferred stock receive preference over the holders of Series A-1 and A-2 convertible preferred stock. A liquidation is defined as (i) a sale of all or substantially all of the assets of the Company or a merger or consolidation which will result in the Company's stockholders immediately prior to such transaction holding less than 51 percent of the voting power of the surviving, continuing or purchasing entity; and (ii) the sale, assignment, transfer or termination in any manner of (A) the amended and restated license agreement between the Company and Purdue Research Foundation dated October 1998, as amended from time to time, or (B) the patents, pending patents or patent rights described in such license agreement, except in the event that a transaction so effecting such license agreement or intellectual property shall not be deemed a liquidation if it has been unanimously approved by the Board.

*Voting.* Both holders of convertible preferred stock and common stock have voting rights. Each share of convertible preferred stock and common stock is entitled to one vote. Convertible preferred stock and

---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

common stock maintain the same voting rights, except for the election of the Board of Directors under which separate classes, based upon common stock and series of preferred stock, vote to elect a pre-determined number of directors.

**11. Stockholders Equity (Deficit)**

*Common Stock*

In conjunction with the issuance of Series B convertible preferred stock, the Company issued common stock to several Series B investors. Under the terms of the agreement, the Company has the right, but not the obligation, to repurchase the common stock, if certain conditions are not met by the holders. At December 31, 2009 and 2010, 222,510 shares remained subject to certain repurchase conditions. Based on the post-money valuation upon the Company's closing of the initial public offering on February 9, 2011, 196,335 of the shares of common stock subject to certain repurchase conditions were released to several Series B investors. The remaining 26,175 shares of common stock remain restricted and, subject to certain conditions, may be repurchased by the Company.

*Stock Options*

The Company has an employee stock option plan for which 1,963,350 shares of common stock are authorized and reserved at December 31, 2009, 2,486,663 at December 31, 2010 and 3,795,563 at March 31, 2011. The plan is available to all employees, directors and certain contractors as determined by the Board. Employees are granted incentive stock options, while directors and contractors are issued non-qualified options. The plan allows the holder of the option to purchase common stock at the exercise price, which was at or above the fair value of the Company's common stock on the date of grant.

Generally, options fully vest four years from the grant date and have a term of ten years. Options granted in connection with an employee's commencement of employment generally vest over a four-year period with half of the shares subject to the grant vesting after two years of employment and remaining options vesting monthly over the remainder of the four-year period. Options granted for performance or promotions vest monthly over a four-year period. Unexercised stock options terminate on the tenth anniversary date after the date of grant. The Company recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. In connection with the adoption of ASC 718, the Company reassessed the valuation methodology for stock options and the related input assumptions. As a result, beginning with the 2006 stock option grant, the Company utilizes a Black-Scholes option-pricing model to estimate the value of stock options.

The Black-Scholes model allows the use of a range of assumptions related to volatility, risk-free interest rate, and employee exercise behavior. Prior to the initial public offering, the expected volatility was derived from the historical volatility of the NASDAQ Biotechnology Index, which the Company determined was a proxy for its volatility. Since the Company has elected to use an index to determine the value of its stock options, it is applying the calculated value approach for a private company instead of using fair value. Subsequent to filing the registration statement in August 2010, all grants have been valued under the fair value provisions of ASC 718.

Since the Company completed its initial public offering in February 2011, it does not have sufficient history as a publicly traded company to evaluate volatility. As a result, the Company has used an average of

**ENDOCYTE, INC.****NOTES TO FINANCIAL STATEMENTS (Continued)**

several peer companies' volatilities to determine a reasonable estimate of volatility. For purposes of identifying similar entities, the Company considered characteristics such as industry, length of trading history, market capitalization and similar product pipelines.

The risk-free interest rate is derived from the weighted-average yield of a Treasury security with the same term as the expected life of the options and the dividend yield is based on historical experience and the Company's estimate of future dividend yields.

Prior to the initial public offering, the expected life of the options was based on the weighted-average life of the Company's historical option grants, and the dividend yield is based on historical experience and the Company's estimate of future dividend yields. Subsequent to the initial public offering, due to the lack of available quarterly data for the peer companies and insufficient history as a public company, the Company elected to use the simplified method for plain vanilla options to estimate the expected term of the stock options grants. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option.

The weighted-average value of the individual options granted during 2008, 2009, 2010 and 2011 were determined using the following assumptions:

	<b>Year Ended December 31,</b>			<b>Three</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Months</b>
				<b>Ended</b>
				<b>March 31,</b>
				<b>2011</b>
Weighted-average volatility	34.87%	35.59%	36.26%	80.00%
Risk-free interest rate	4.04%	3.67%	3.52%	2.43%
Weighted-average expected life (in years)	10.0	10.0	9.8	6.1
Dividend yield	0.00%	0.00%	0.00%	0.00%

## ENDOCYTE, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The resulting value of options granted was \$343,119 and \$1,226,783 for the year ended December 31, 2009 and 2010, respectively, which will be amortized into income over the remaining requisite service period. The Company recognized stock-based compensation cost, net of forfeitures, in the amount of \$257,163, \$381,877, and \$523,562 for the year ended December 31, 2008, 2009 and 2010, respectively. The Company's stock option activity and related information are summarized as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	1,057,806	\$ 2.54		
Granted during year	357,240	3.05		
Exercised during year	(43,452)	1.05		
Expired during year	(1,570)	5.87		
Forfeited during year	(15,703)	2.45		
Outstanding at December 31, 2008	1,354,321	\$ 2.72	7.00	\$ (987,712)
Exercisable at December 31, 2008	799,986	2.81	5.89	(660,088)
Outstanding at January 1, 2009	1,354,321	2.72		
Granted during year	374,227	2.54		
Exercised during year				
Expired during year	(119,607)	6.58		
Forfeited during year	(20,732)	2.34		
Outstanding at December 31, 2009	1,588,209	\$ 2.39	7.23	\$ 1,113,770
Exercisable at December 31, 2009	980,812	2.23	6.44	442,029
Outstanding at January 1, 2010	1,588,209	2.39		
Granted during year	555,987	4.22		
Exercised during year	(69,649)	2.11		
Expired during year	(8,224)	7.64		
Forfeited during year	(46,990)	5.08		
Outstanding at December 31, 2010	2,019,333	\$ 2.82	7.01	\$ 8,887,814
Exercisable at December 31, 2010	1,271,226	2.41	6.10	6,108,168
Outstanding at January 1, 2011 (unaudited)	2,019,333	\$ 2.82		
Granted during period (unaudited)	115,022	6.40		
Exercised during period (unaudited)	(37,662)	0.45		
Expired during period (unaudited)	(23,039)	7.64		
Forfeited during period (unaudited)				
Outstanding at March 31, 2011 (unaudited)	2,073,654	\$ 3.01	7.12	\$ 11,532,189
Exercisable at March 31, 2011 (unaudited)	1,330,431	2.44	6.25	\$ 8,159,102



**ENDOCYTE, INC.****NOTES TO FINANCIAL STATEMENTS (Continued)**

The following is a rollforward of the Company's nonvested stock options from December 31, 2007 to December 31, 2010.

	<b>Options</b>	<b>Weighted-Average Grant Date Value</b>
Nonvested stock options at January 1, 2008	481,709	\$ 0.63
Granted during year	357,240	1.51
Vested during year	(267,341)	1.05
Expired during year	(1,570)	0.44
Forfeited during year	(15,703)	1.20
Nonvested at December 31, 2008	554,335	\$ 1.05
Nonvested stock options at January 1, 2009	554,335	\$ 1.05
Granted during year	374,227	0.92
Vested during year	(180,826)	1.15
Expired during year	(119,607)	6.59
Forfeited during year	(20,732)	1.24
Nonvested at December 31, 2009	607,397	\$ 1.01
Nonvested stock options at January 1, 2010	607,397	\$ 1.01
Granted during year	555,987	2.21
Vested during year	(360,063)	1.31
Expired during year	(8,224)	4.41
Forfeited during year	(46,990)	1.43
Nonvested at December 31, 2010	748,107	\$ 1.97

The total grant date value of options vested during 2008, 2009, and 2010 was \$271,116, \$351,664 and \$521,196, respectively. As of December 31, 2009 and 2010 and March 31, 2011, the total remaining unrecognized compensation cost related to nonvested stock options granted subsequent to the adoption of ASC 718 on January 1, 2006, was \$614,959, \$1,204,746 and \$1,448,510, respectively, which will be amortized over the remaining requisite service period. The intrinsic value of options exercised was \$0 and \$302,160 for the year ended December 31, 2009 and December 31, 2010, respectively.

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**12. Income Taxes**

A reconciliation of the expected income tax benefit (expense) computed using the federal statutory income tax rate to the Company's effective income tax rate is as follows for year ended December 31, 2008, 2009, and 2010:

	<b>2008</b>	<b>December 31, 2009</b>	<b>2010</b>
Income tax computed at federal statutory tax rate	34.0%	34.0%	34.0%
State taxes, net of federal benefits	8.5%	8.5%	8.4%
Research and development credits	5.1%	5.7%	4.8%
Permanent differences	(3.4)%	(3.6)%	(0.7)%
Other	0.3%	0.2%	(0.1)%
Change in valuation allowance	(44.5)%	(44.8)%	(46.4)%
<b>Total</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

At December 31, 2010, the Company has net operating loss carryforwards totaling approximately \$95,200,000 and \$93,700,000 for federal and state income taxes, respectively, that may be used to offset future taxable income. If not used, the carryforwards will begin expiring in the year 2022. As of December 31, 2009 and December 31, 2010, the Company has not experienced a change in ownership, as defined under Section 382 of the U.S. Internal Revenue Code (the "Code"). The Company has not determined whether the initial public offering that occurred in February 2011 resulted in an ownership change. The Company recognizes future tax benefits, such as net operating losses, to the extent those benefits are expected to be realized in future periods. Due to uncertainty surrounding the realization of its deferred tax assets, the Company has recorded an equal and offsetting valuation allowance against its net deferred tax assets.

Net deferred tax assets and liabilities are comprised of the following:

	<b>December 31, 2009</b>	<b>2010</b>
Net operating loss carryforwards	\$ 29,571,000	\$ 37,987,000
Research and development credit carryforwards	4,285,000	5,169,000
Accrued vacation	40,000	49,000
Other	(16,000)	(1,000)
	<b>33,880,000</b>	<b>43,204,000</b>
Less valuation allowance	(33,880,000)	(43,204,000)
	<b>\$</b>	<b>\$</b>

**13. Collaborative Arrangements**

In December 2005, the Company entered into a collaborative agreement with Bristol-Myers Squibb ("BMS") granting BMS an exclusive worldwide license to its proprietary patent rights and know-how related to methods and compositions useful in making folate conjugates to develop and commercialize folate conjugates of epothilone compounds. To date, the Company received upfront payments, milestone





---

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

payments, and maintenance payments totaling \$8.1 million from BMS. As all payments are not contingent on specific performance or ongoing responsibilities of the Company, the Company recognized the upfront revenue upon contract signing, milestone revenue when milestones were achieved, and annual maintenance fees when they were due. BMS terminated this agreement during 2010. As a result, the Company does not expect to receive additional milestones or royalties associated with this program. No material payments were expected to be received during 2011 and 2012 and, therefore, this termination does not have a material financial impact on the Company.

In October 2007, the Company entered into an exclusive worldwide license with R&D Biopharmaceuticals to research, develop, and commercialize products containing conjugates of folate receptor targeting compounds and tubulysin compounds. The Company paid an upfront fee of \$300,000 as research and development and has since paid \$50,000 in annual maintenance fees. In February 2011, this licensing agreement was assigned by R&D Biopharmaceuticals to Trientlgasse. The Company could pay \$6,300,000 in additional contingent payments upon the achievement of specific scientific, clinical, and regulatory milestones, in addition to royalties upon commercial sales. All payments have been expensed as research and development as incurred, as there is no alternate future use for this technology.

In December 1995, as amended in October 1998, the Company entered into an exclusive license agreement with Purdue Research Foundation, which licenses the right under certain patents to the Company. The Company is obligated to pay an annual minimum royalty of \$12,500 until commercial sales commence, following which time the payment of single digit royalty rates will commence. All payments have been expensed as incurred, as the Company does not believe there is an alternate future use for this technology.

In December 2009, the Company entered into a financial term sheet to be incorporated into a written license agreement with Purdue Research Foundation for a patent related to prostate cancer. The agreement was signed and became effective on March 1, 2010. Pursuant to the exclusive license agreement, the Company is subject to annual payments of \$15,000, payable until first commercial sale, following which time the payment of single digit royalty rates will commence. In addition, certain clinical and regulatory milestone payments of \$500,000 along with sales-based milestones related to third-party sales are also payable. The Company is also subject to penalties totaling \$300,000 if certain diligence milestones are not met. Subsequent to the first commercial sales, the annual milestone is \$100,000. Future milestone payments in excess of \$500,000 may be waived by Purdue Research Foundation.

**14. Related-Party Transactions**

The Company funds research at the employer of one of its founders and current Chief Science Officer. Amounts included in research and development expenses were \$394,474, \$352,165, \$391,325, \$97,831 and \$0 for the year ended December 31, 2008, 2009 and 2010, and the three month period ended March 31, 2010 and 2011, respectively. During the past three years, the Company has completed various financing transactions which included the issuance of our Preferred Stock and Subordinated Notes. In each case, certain of our existing stockholders participated by purchasing the securities.

**15. Retirement Plans**

The Company maintains a 401(k) retirement savings plan to provide retirement benefits for substantially all of its employees. Participants in the plan may elect to contribute a portion of their annual compensation to the plan, limited to the maximum allowed by the Code. The Company does not currently match 401(k) contributions.

**ENDOCYTE, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**16. Net Loss Per Share**

Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method and the if-converted method. For purposes of this calculation, convertible preferred stock, stock options and warrants are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

The following tables and discussion provide a reconciliation of the numerator and denominator of the basic and diluted net loss per share computations. The calculation below provides net loss, weighted-average common shares outstanding, and the resultant net loss per share on both a basic and diluted basis for the year ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2010 and 2011.

*Historical net loss per share*

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
	(Unaudited)				
<b>Numerator:</b>					
Net loss	\$ (18,492,876)	\$ (17,005,685)	\$ (20,092,722)	\$ (5,608,555)	\$ (7,188,596)
<b>Denominator:</b>					
Weighted-average common shares outstanding	900,127	911,066	923,007	911,066	16,907,823
Basic and diluted net loss per share	\$ (20.54)	\$ (18.67)	\$ (21.77)	\$ (6.16)	\$ (0.43)

As of December 31, 2008, 2009 and 2010 and March 31, 2010 and 2011 the following number of potential common stock equivalents were outstanding:

*Common stock equivalents*

	Year Ended December 31,			Three Months Ended	
	2008	2009	2010	2010	2011
	(Unaudited)				
Outstanding common stock options	1,354,321	1,588,209	2,019,333	2,039,146	2,073,654
Outstanding restricted stock	222,510	222,510	222,510	222,510	26,175
Shares issuable upon conversion of preferred shares	8,465,107	11,747,563	11,747,563	69,294	133,968
Shares issuable upon conversion of subordinated notes			1,596,066	11,747,563	
<b>Total</b>	<b>10,041,938</b>	<b>13,558,282</b>	<b>15,585,472</b>	<b>14,078,513</b>	<b>2,233,797</b>

These common stock equivalents were excluded from the determination of diluted net loss per share due to their anti-dilutive effect on earnings.

**Shares**

**Common Stock**

**RBC CAPITAL MARKETS**

**LEERINK SWANN**

**COWEN AND COMPANY**

**WEDBUSH PACGROW LIFE SCIENCES**

PROSPECTUS

, 2011

**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 13. Other Expenses of Issuance and Distribution**

The following table sets forth all expenses to be paid by the registrant, other than estimated underwriting discounts and commissions, in connection with this offering. All amounts shown are estimates except for the Securities and Exchange Commission registration fee and the Financial Industry Regulatory Authority, or FINRA, filing fee:

	<b>Amount to be Paid</b>
Securities and Exchange Commission registration fee	\$ 9,057
FINRA Filing Fee	8,301
Accounting fees and expenses	*
Legal fees and expenses	*
Blue Sky fees and expenses	*
Printing and engraving expenses	*
Transfer agent and registrar fees	*
Miscellaneous	*
<b>Total</b>	<b>\$ *</b>

\* To be filed by amendment.

**ITEM 14. Indemnification of Directors and Officers**

Section 145(a) of the Delaware General Corporation Law provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no cause to believe his or her conduct was unlawful.

Section 145(b) of the Delaware General Corporation Law provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if he or she acted under similar standards, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to be indemnified for such expenses which the court shall deem proper.

Section 145 Section 102(b)(7) of the Delaware General Corporation Law further provides that: (i) to the extent that a former or present director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to in subsections (a) and (b) or in the defense of any claim, issue or



matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith; (ii) indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and (iii) the corporation may purchase and maintain insurance on behalf of any present or former director, officer, employee or agent of the corporation or any person who at the request of the corporation was serving in such capacity for another entity against any liability asserted against such person and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liabilities under Section 145.

In addition, the proposed form of Underwriting Agreement, to be filed by amendment, is expected to provide for indemnification of our directors and officers by the underwriters against certain liabilities.

Article IX of our amended and restated certificate of incorporation authorizes us to provide for the indemnification of directors to the fullest extent permissible under Delaware law.

We have entered into indemnification agreements with our directors, executive officers and others, in addition to indemnification provided for in our bylaws, and intend to enter into indemnification agreements with any new directors and executive officers in the future.

We have purchased and intend to maintain insurance on behalf of any person who is or was a director or officer against any loss arising from any claim asserted against him or her and incurred by him or her in any such capacity, subject to certain exclusions.

See also the undertakings set out in response to Item 17 herein.

**ITEM 15. *Recent Sales of Unregistered Securities***

In the past three years, we have issued and sold the following securities:

Set forth below is information regarding securities issued or awarded by us within the past three years that were not registered under the Securities Act. Also included is the consideration, if any, received by us for such securities and information relating to the section of the Securities Act, or rule of the SEC, under which exemption from registration was claimed.

(a) Issuances of Capital Stock and Subordinated Convertible Promissory Notes

(1) Between March 9, 2007 and October 13, 2009, we issued and sold an aggregate of 5,135,965 shares of our Series C-3 convertible preferred stock at a per share price of \$8.12 to accredited investors, some of which were affiliated with certain of our directors, for aggregate consideration of approximately \$41.7 million.

(2) From June 30, 2008 through June 30, 2011, we issued an aggregate of 119,123 shares of our common stock at prices ranging from \$0.19 to \$7.64 per share to certain of our employees, consultants and directors pursuant to the exercise of stock options under the 1997 Stock Plan for an aggregate purchase price of approximately \$148,000.

(3) From June 30, 2008 through June 30, 2011, we issued an aggregate of 15,319 shares of our common stock at prices ranging from \$2.54 to \$3.06 per share to certain of our employees, consultants and directors pursuant to the exercise of stock options under the 2007 Stock Plan for an aggregate purchase price of approximately \$43,000.

(4) On December 14, 2010, we issued subordinated convertible promissory notes to three of our current stockholders in connection with a debt financing for an aggregate consideration of \$8.1 million,

all of which (together with accrued interest thereon), were converted into shares of our common stock upon consummation of our initial public offering. All of the purchasers were accredited investors, one was a Qualified Institutional Buyer, one was our Chief Financial Officer, and one has had a long-standing relationship with us.

(5) On January 7, 2011, we issued additional subordinated convertible promissory notes to three of our current stockholders in connection with a subsequent tranche of our December 2010 debt financing for an aggregate consideration of \$3.7 million, all of which (together with accrued interest thereon), were converted into shares of our common stock upon consummation of our initial public offering. All of the purchasers were accredited investors: one was a prior investor in the December 2010 initial tranche of the debt financing and has had a long-standing relationship with us, one was a Qualified Institutional Buyer and one investor has a representative on our Board of Directors.

(b) Stock Option Grants and Warrant Issuances

(1) From June 30, 2008 through February 9, 2011, we granted stock options to purchase an aggregate of 953,896 shares of our common stock with exercise prices ranging from \$2.54 to \$7.26 per share, to certain of our employees, consultants and directors under the 2007 Stock Plan in connection with services provided by such parties to us.

(2) On December 31, 2007, we issued warrants to accredited investors, in connection with debt financings completed with such accredited investors, to purchase up to an aggregate of 69,294 shares of our Series C-3 convertible preferred stock, each at an exercise price of \$8.12 per share. In connection with our initial public offering, these warrants became exercisable for 69,294 shares of our common stock.

(3) On August 27, 2010, we issued warrants to accredited investors in connection with debt financings completed with such accredited investors, to purchase up to an aggregate of 43,116 shares of our Series C-3 convertible preferred stock, each at an exercise price of \$8.12 per share. On December 14, 2010, we amended our arrangements with the holders of these warrants, which resulted in an adjustment to the warrants such that an additional 21,558 shares of our Series C-3 convertible preferred stock become exercisable under the warrants. In connection with our initial public offering, these warrants became exercisable for 64,674 shares of our common stock.

No underwriters were involved in the foregoing issuances of securities. The securities described in paragraphs (a)(1), (a)(4), (a)(5), (b)(2) and (b)(3) of this Item 15 were issued to accredited investors in reliance upon the exemption from the registration requirements of the Securities Act, as set forth in Section 4(2) under the Securities Act, and, in certain cases, in reliance on Regulation D promulgated thereunder, relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required. The securities described in paragraphs (a)(2), (a)(3) and (b)(1) of this Item 15 were issued pursuant to written compensatory plans or arrangements with our employees, directors and consultants in reliance on the exemption provided by Rule 701 promulgated under Section 3(b) of the Securities Act, or pursuant to Section 4(2) under the Securities Act, relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required.

All of the purchasers of shares of our convertible preferred stock and subordinated convertible promissory notes described above and the parties to which warrants were issued described above represented to us in connection with their respective purchases described above that they were accredited investors and that they were acquiring the applicable securities for investment and not with a view to sale or distribution and to the effect that they could bear the risks of the investment. Such parties received written

disclosures that the applicable securities had not been registered under the Securities Act and that any resale must be made pursuant to a registration or an available exemption from such registration.

All of the foregoing securities are deemed restricted securities for purposes of the Securities Act. The certificates representing the issued shares of capital stock and the warrants described in this Item 15 included appropriate legends setting forth that the applicable securities have not been registered and the applicable restrictions on transfer.

**ITEM 16. Exhibits**

(a) Exhibit

The Exhibit Index filed herewith is incorporated herein by reference.

II-4



**Item 17. Undertakings.**

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

We hereby undertake that:

- (1) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from a form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

---

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of West Lafayette, State of Indiana, on July 14, 2011.

**ENDOCYTE, INC.**

By: */s/* P. RON ELLIS  
P. Ron Ellis  
President and Chief Executive Officer

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints P. Ron Ellis, Michael A. Sherman and Beth A. Taylor, jointly and severally, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign the Registration Statement on Form S-1 of Endocyte, Inc. and any or all amendments (including post-effective amendments) thereto and any new registration statement with respect to the offering contemplated thereby filed pursuant to Rule 462(b) of the Securities Act, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated below:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<i>/s/</i> P. RON ELLIS P. Ron Ellis	Director, President and Chief Executive Officer (Principal Executive Officer)	July 14, 2011
<i>/s/</i> MICHAEL A. SHERMAN Michael A. Sherman	Chief Financial Officer (Principal Financial Officer)	July 14, 2011
<i>/s/</i> BETH A. TAYLOR Beth A. Taylor	Corporate Controller (Principal Accounting Officer)	July 14, 2011
<i>/s/</i> JOHN C. APLIN John C. Aplin	Chairman of the Board of Directors	July , 2011
<i>/s/</i> PHILIP S. LOW Philip S. Low	Director and Chief Science Officer	July 14, 2011
<i>/s/</i> KEITH E. BRAUER Keith E. Brauer	Director	July 14, 2011

Keith E. Brauer

II-6

Edgar Filing: ENDOCYTE INC - Form S-1

---

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ JOHN G. CLAWSON John G. Clawson	Director	July 14, 2011
/s/ DOUGLAS G. BAILEY Douglas G. Bailey	Director	July 14, 2011
/s/ ANN F. HANHAM Ann F. Hanham	Director	July 14, 2011
Fred A. Middleton	Director	July , 2011
/s/ JAMES S. SHANNON James S. Shannon	Director	July 14, 2011

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Title</b>
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K for the year ended December 31, 2010 filed March 18, 2011).
3.2	Amended and Restate Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to Annual Report on Form 10-K for the year ended December 31, 2010 filed March 18, 2011).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 3 to Form S-1 (Registration No. 333-168904) filed January 12, 2011).
4.2	Third Amended and Restated Investor Rights Agreement dated March 9, 2007, among Endocyte, Inc. and the parties set forth therein, as amended (incorporated by reference to Exhibit 4.2 of Amendment No. 1 to Form S-1 (Registration No. 333-168904) filed September 28, 2010).
4.3	Warrant to Purchase Shares of Series C-3 Preferred Stock issued by Endocyte, Inc. to General Electric Capital Corporation on December 31, 2007 (incorporated by reference to Exhibit 4.3 to Form S-1 (Registration No. 333-168904) filed August 17, 2010).
4.4	Warrant to Purchase Shares of Series C-3 Preferred Stock issued by Endocyte, Inc. to Oxford Finance Corporation on December 31, 2007 (incorporated by reference to Exhibit 4.4 to Form S-1 (Registration No. 333- 168904) filed August 17, 2010).
4.5	Warrant to Purchase Stock issued by Endocyte, Inc. to Silicon Valley Bank on August 27, 2010 (incorporated by reference to Exhibit 4.5 of Amendment No. 1 to Form S-1 (Registration No. 333- 168904) filed September 28, 2010).
4.6	Warrant to Purchase Stock issued by Endocyte, Inc. to Midcap Funding III, LLC on August 27, 2010 (incorporated by reference to Exhibit 4.6 of Amendment No. 1 to Form S-1 (Registration No. 333-168904) filed September 28, 2010).
5.1*	Opinion of Baker & Daniels LLP
10.1#	Form of Director and Executive Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Form S-1 (Registration No. 333-168904) filed August 17, 2010).
10.2#	1997 Stock Plan and forms of option agreements thereunder (incorporated by reference to Exhibit 10.2 to Form S-1 (Registration No. 333-168904) filed August 17, 2010).
10.3#	2007 Stock Plan and forms of option agreements thereunder (incorporated by reference to Exhibit 10.3 to Form S-1 (Registration No. 333-168904) filed August 17, 2010).
10.4#	2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to Form S-1 (Registration No. 333- 168904) filed August 17, 2010).#
10.5#	Form of Option Agreement under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to Annual Report on Form 10-K for the year ended December 31, 2010 filed March 18, 2011).
10.6#	2010 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.5 to Form S-1 (Registration No. 333-168904) filed August 17, 2010).#
10.7	Lease dated May 1, 2008 between Endocyte, Inc. and 2639 Executive Building LLC (incorporated by reference to Exhibit 10.6 of Amendment No. 1 to Form S-1 (Registration No. 333-168904) filed September 28, 2010).

## Edgar Filing: ENDOCYTE INC - Form S-1

<b>Exhibit Number</b>	<b>Exhibit Title</b>
10.8	Lease dated May 30, 2008 between Endocyte, Inc. and Zeller Management Corporation, amended (incorporated by reference to Exhibit 10.7 to Form S-1 (Registration No. 333-168904) filed August 17, 2010).
10.9	Lease dated November 1, 2008 between Endocyte, Inc. and 2639 Executive Building LLC (incorporated by reference to Exhibit 10.8 of Amendment No. 1 to Form S-1 (Registration No. 333-168904) filed September 28, 2010).
10.10	Amended and Restated Exclusive License Agreement dated October 21, 1998 between Endocyte, Inc. and Purdue Research Foundation, as amended (incorporated by reference to Exhibit 10.11 of Amendment No. 1 to Form S-1 (Registration No. 333-168904) filed September 28, 2010).
10.11	Exclusive License Agreement effective March 1, 2010 between Endocyte, Inc. and Purdue Research Foundation (incorporated by reference to Exhibit 10.12 of Amendment No. 1 to Form S-1 (Registration No. 333- 168904) filed September 28, 2010).
10.12	Form of Change in Control Agreements each dated August 25, 2010 between Endocyte, Inc. and certain of its named executive officers (incorporated by reference to Exhibit 10.13 of Amendment No. 1 to Form S-1 (Registration No. 333-168904) filed September 28, 2010).
10.13	Change in Control Agreement dated August 25, 2010 between Endocyte, Inc. and P. Ron Ellis (incorporated by reference to Exhibit 10.14 of Amendment No. 1 to Form S-1 (Registration No. 333-168904) filed September 28, 2010).
10.14	Change in Control Agreement dated August 25, 2010 between Endocyte, Inc. and Michael A. Sherman (incorporated by reference to Exhibit 10.15 of Amendment No. 1 to Form S-1 (Registration No. 333- 168904) filed September 28, 2010).
10.15	Patent Assignment Agreement dated November 1, 2007 among Endocyte, Inc. and the parties set forth therein (incorporated by reference to Exhibit 10.16 of Amendment No. 1 to Form S-1 (Registration No. 333- 168904) filed September 28, 2010).
10.16	Loan and Security Agreement dated August 27, 2010 among Endocyte, Inc., Midcap Funding III, LLC and Silicon Valley Bank, as amended on December 14, 2010 (incorporated by reference to Exhibit 10.17 of Amendment No. 2 to Form S-1 (Registration No. 333-168904) filed December 15, 2010).
10.17	Note Purchase Agreement, dated December 14, 2010 among Endocyte, Inc. and the parties set forth therein (incorporated by reference to Exhibit 10.18 of Amendment No. 2 to Form S-1 (Registration No. 333- 168904) filed December 15, 2010).
10.18	Form of Subordination Agreement between Endocyte, Inc. and the parties set forth in the Note Purchase Agreement dated December 14, 2010 (incorporated by reference to Exhibit 10.19 of Amendment No. 2 to Form S-1 (Registration No. 333-168904) filed December 15, 2010).
10.19	Extension of Lease dated April 1, 2011 between Endocyte, Inc. and Purdue Research Foundation (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed May 31, 2011).
10.20	Lease dated April 1, 2011 between Endocyte, Inc. and Purdue Research Foundation (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed May 31, 2011).
10.21#	Form of Endocyte, Inc. 2010 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement (2011 RSU Program) (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 2, 2011).

<b>Exhibit Number</b>	<b>Exhibit Title</b>
23.1	Consent of Ernst & Young, LLP
23.2*	Consent of Baker & Daniels LLP (included in Exhibit 5.1).
24.1	Power of Attorney (see pages II-6 and II-7 to this registration statement on Form S-1).

\* To be filed by amendment.

# Designates management or compensation plans.

II-10