

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

FORM 10-Q

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

For the quarterly period ended **June 30, 2020**

OR

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

For the transition period from _____ to _____

Commission File Number: **001-37773**

MERUS N.V.

(Exact name of registrant as specified in its charter)

The Netherlands
(State or other jurisdiction of
incorporation or organization)

Yalelaan 62
3584 CM Utrecht
The Netherlands
(Address of principal executive offices)

Not Applicable
(I.R.S. Employer
Identification No.)

Not Applicable
(Zip code)

+31 85 016 2500

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common shares, nominal value €0.09 per share	MRUS	The Nasdaq Stock Market LLC (Nasdaq Global Market)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of August 3, 2020, the registrant had 29,057,121 common shares, nominal value €0.09 per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including without limitation statements regarding our plans to develop and commercialize our product candidates, the timing of our ongoing or planned clinical trials, the timing of and our ability to obtain and maintain regulatory approvals, the anticipated impact of the COVID-19 pandemic on our business and operations, the clinical utility of our product candidates, our commercialization, marketing and manufacturing capabilities and strategy, our expectations surrounding our collaborations, our expectations about the willingness of healthcare professionals to use our product candidates, the sufficiency of our cash, cash equivalents and investments, and the plans and objectives of management for future operations and capital expenditures are forward-looking statements.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions and are based largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of known and unknown risks, uncertainties and assumptions, including those described under the sections in this Quarterly Report on Form 10-Q entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MERUS N.V.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(Amounts in thousands, except per share data)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 152,088	\$ 197,612
Marketable securities	45,278	42,153
Accounts receivable	142	941
Accounts receivable (related party)	1,809	1,711
Prepaid expenses and other current assets	12,087	4,951
Total current assets	211,404	247,368
Marketable securities	—	2,009
Property and equipment, net	3,617	3,715
Operating lease right-of-use assets	4,531	5,215
Intangible assets, net	2,731	2,876
Deferred tax assets	210	288
Other assets	1,168	1,905
Total assets	\$ 223,661	\$ 263,376
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,362	\$ 3,029
Accrued expenses	15,931	13,536
Current portion of lease obligation	1,451	1,380
Current portion of deferred revenue	727	941
Current portion of deferred revenue (related party)	17,844	17,901
Total current liabilities	38,315	36,787
Lease obligation	3,119	3,872
Deferred revenue, net of current portion	457	780
Deferred revenue, net of current portion (related party)	81,474	90,637
Total liabilities	123,365	132,076
Stockholders' equity:		
Common shares, €0.09 par value; 45,000,000 shares authorized; 29,047,344 and 28,882,217 shares issued and outstanding as at June 30, 2020 and December 31, 2019, respectively	\$ 2,935	\$ 2,918
Additional paid-in capital	445,754	441,395
Accumulated other comprehensive (loss) income	680	1,586
Accumulated deficit	(349,073)	(314,599)
Total stockholders' equity	100,296	131,300
Total liabilities and stockholders' equity	\$ 223,661	\$ 263,376

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements.

MERUS N.V.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)
(Amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Collaboration revenue	\$ 184	\$ 336	\$ 512	\$ 1,938
Collaboration revenue (related party)	5,872	6,144	11,845	13,371
Grant revenue	—	(123)	—	(123)
Total revenue	6,056	6,357	12,357	15,186
Operating expenses:				
Research and development	13,709	10,768	30,696	22,567
General and administrative	8,043	8,214	16,925	14,955
Total operating expenses	21,752	18,982	47,621	37,522
Operating loss	(15,696)	(12,625)	(35,264)	(22,336)
Other income (loss), net:				
Interest income, net	99	535	379	1,165
Foreign exchange gains (losses)	(2,346)	(1,214)	539	1,006
Other income (loss), net	(2,247)	(679)	918	2,171
Net loss before income taxes	(17,943)	(13,304)	(34,346)	(20,165)
Tax expense	31	71	128	293
Net loss	<u>\$ (17,974)</u>	<u>\$ (13,375)</u>	<u>\$ (34,474)</u>	<u>\$ (20,458)</u>
Other comprehensive income (loss):				
Currency translation adjustment	2,201	1,098	(906)	(802)
Comprehensive loss	\$ (15,773)	\$ (12,277)	\$ (35,380)	\$ (21,260)
Net loss per share attributable to common stockholders:				
Basic and diluted	\$ (0.54)	\$ (0.52)	\$ (1.22)	\$ (0.91)
Weighted-average common shares outstanding:				
Basic and diluted	29,034	23,388	28,990	23,380

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements.

MERUS N.V.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Amounts in thousands)

	Six Months Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (34,474)	\$ (20,458)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	532	393
Amortization of intangible assets	134	112
Foreign exchange gain	(503)	(789)
Loss on disposal of property and equipment	16	—
Stock-based compensation expense	3,483	3,120
Amortization of discount on investments	(79)	(365)
Deferred tax expense	78	158
Changes in operating assets and liabilities:		
Accounts receivable	681	1,648
Operating lease right-of-use assets and lease obligations	3	(143)
Prepaid expenses and other current assets	(6,441)	(2,739)
Accounts payable	(599)	(1,323)
Accrued expenses	2,556	(318)
Deferred revenue	(9,255)	(8,576)
Net cash used in operating activities	\$ (43,868)	\$ (29,280)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	\$ (28,947)	\$ (34,417)
Proceeds from maturities of marketable securities	28,181	50,934
Purchases of intangible assets	—	(178)
Purchases of property and equipment	(512)	(770)
Net cash (used in) provided by investing activities	\$ (1,278)	\$ 15,569
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of offering costs	\$ (164)	\$ —
Proceeds from stock options exercised	893	31
Net cash provided by financing activities	\$ 729	\$ 31
Foreign exchange impact on cash, cash equivalents and restricted cash	(1,107)	(701)
Net decrease in cash, cash equivalents and restricted cash	(45,524)	(14,381)
Cash, cash equivalents, and restricted cash, beginning of period	197,813	164,730
Cash, cash equivalents, and restricted cash, end of period	\$ 152,289	\$ 150,349
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid	\$ 25	\$ 171
Non-cash purchases of property, equipment and intangibles	\$ 35	\$ 230
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents	152,088	150,209
Restricted cash included in non-current other assets	201	140
	\$ 152,289	\$ 150,349

See accompanying notes to the Condensed Consolidated Financial Statements.

MERUS N.V.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
(Amounts in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 2019	23,358,977	\$ 2,366	\$ 360,045	\$ (259,448)	\$ 2,894	\$ 105,857
Exercise of stock options and vesting of restricted stock units	20,678	2	26	—	—	28
Stock-based compensation	—	—	1,260	—	—	1,260
Currency translation adjustment	—	—	—	—	(1,900)	(1,900)
Net loss	—	—	—	(7,083)	—	(7,083)
Balance at March 31, 2019	<u>23,379,655</u>	<u>\$ 2,368</u>	<u>\$ 361,331</u>	<u>\$ (266,531)</u>	<u>\$ 994</u>	<u>\$ 98,162</u>
Exercise of stock options and vesting of restricted stock units	13,632	2	2	—	—	4
Stock-based compensation	—	—	1,860	—	—	1,860
Currency translation adjustment	—	—	—	—	1,098	1,098
Net loss	—	—	—	(13,375)	—	(13,375)
Balance at June 30, 2019	<u>23,393,287</u>	<u>\$ 2,370</u>	<u>\$ 363,193</u>	<u>\$ (279,906)</u>	<u>\$ 2,092</u>	<u>\$ 87,749</u>
Balance at January 1, 2020	28,882,217	\$ 2,918	\$ 441,395	\$ (314,599)	\$ 1,586	\$ 131,300
Exercise of stock options and vesting of restricted stock units	127,205	13	589	—	—	602
Stock-based compensation	—	—	2,291	—	—	2,291
Currency translation adjustment	—	—	—	—	(3,107)	(3,107)
Net loss	—	—	—	(16,500)	—	(16,500)
Balance at March 31, 2020	<u>29,009,422</u>	<u>\$ 2,931</u>	<u>\$ 444,275</u>	<u>\$ (331,099)</u>	<u>\$ (1,521)</u>	<u>\$ 114,586</u>
Exercise of stock options and vesting of restricted stock units	37,922	4	287	—	—	291
Stock-based compensation	—	—	1,192	—	—	1,192
Currency translation adjustment	—	—	—	—	2,201	2,201
Net loss	—	—	—	(17,974)	—	(17,974)
Balance at June 30, 2020	<u>29,047,344</u>	<u>\$ 2,935</u>	<u>\$ 445,754</u>	<u>\$ (349,073)</u>	<u>\$ 680</u>	<u>\$ 100,296</u>

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements.

MERUS N.V.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Overview

Merus N.V. is a clinical-stage oncology company developing innovative antibody therapeutics, headquartered in Utrecht, the Netherlands. Merus US, Inc. is a wholly-owned subsidiary of Merus N.V. located at 139 Main Street, Cambridge, Massachusetts, United States (collectively, the "Company").

Since inception, the Company has generated an accumulated deficit of \$349.1 million as of June 30, 2020. The Company expects to continue to incur significant expenses and operating losses for the foreseeable future as its antibody candidates advance through discovery, pre-clinical development and clinical trials and as it seeks regulatory approval and pursues commercialization of any approved antibody candidate.

As a result, the Company may need additional financing to support its continuing operations. Until the Company can generate significant revenue from product sales, if ever, the Company expects to finance its operations through public equity offerings, debt financings, or other sources, which may include collaborations with third parties and business development opportunities. Adequate additional financing may not be available to the Company on acceptable terms, or at all. The Company's inability to raise capital as and when needed would have a negative impact on its financial condition and ability to pursue its business strategy. The Company will need to generate significant revenues to achieve profitability and may never do so.

Based on the Company's current operating plan, the Company expects that its existing cash and cash equivalents and marketable securities of \$197.4 million as of June 30, 2020 will be sufficient to fund its operations into the second half of 2022.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these unaudited condensed consolidated financial statements are described in the Company's audited financial statements as of and for the year ended December 31, 2019, and the notes thereto, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 16, 2020 (as amended, the "Annual Report on Form 10-K"). There have been no material changes in the Company's significant accounting policies during the six months ended June 30, 2020.

Basis of Presentation

The Company prepared its unaudited consolidated condensed financial statements in compliance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). Any reference in these notes to applicable guidance is meant to refer to authoritative U.S. GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Update ("ASU") of the Financial Accounting Standards Board ("FASB").

The unaudited condensed consolidated financial statements include the accounts of Merus N.V. and its wholly owned, controlled subsidiary, Merus US, Inc. All intercompany transactions and balances of subsidiaries have been eliminated in consolidation. In the opinion of management, these financial statements reflect all adjustments, all of which are of a normal and recurring nature, necessary for a fair presentation of the results for the reported interim periods. The Company considers events or transactions that occur after the balance sheet date but before the unaudited condensed consolidated financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. The three months ended June 30, 2020 and 2019 are referred to as the second quarter of 2020 and 2019, respectively. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or any other interim period.

The unaudited condensed consolidated financial statements presented herein do not contain the required disclosures under U.S. GAAP for annual financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes as of and for the year ended December 31, 2019, included in the Annual Report on Form 10-K.

Going Concern

At each reporting period, the Company evaluates whether there are conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The Company is required to make certain additional disclosures if it concludes substantial doubt exists and it is not alleviated by the Company's plans or when its plans alleviate substantial doubt about the Company's ability to continue as a going concern.

The Company's evaluation entails analyzing prospective operating budgets and forecasts for expectations of the Company's cash needs, and comparing those needs to the current cash, cash equivalent and marketable securities balances. After considering the

Company's current research and development plans, the timing expectations related to the progress of its clinical-stage programs and its plans to pursue commercialization of any approved antibody candidate, and after considering its existing cash, cash equivalents and marketable securities as of June 30, 2020, the Company did not identify conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year from the date these financial statements were issued.

Pending Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The new guidance aligns the requirements for capitalizing implementation costs incurred in a cloud-based hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for the Company at the beginning of 2021, including interim periods within that reporting period, although early adoption is permitted. The Company does not expect the impact of adoption to be significant.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808)*, which clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue when the collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. The ASU will be effective for the Company in the first quarter of 2021, with early adoption permitted. As of June 30, 2020, none of the Company's arrangements fall within the scope of ASC 808. However, as the Company may engage in future collaborative arrangements in the future, this ASU may apply to those new arrangements.

3. Investments in Debt Securities

The following tables summarize the Company's investments in debt securities and their presentation in the condensed consolidated balance sheet:

	June 30, 2020	December 31, 2019
	(in thousands)	
Money market funds	\$ 21,906	\$ 34,053
Corporate paper and notes	30,749	38,679
U.S. government agency securities	2,498	3,987
U.S. treasuries	12,031	1,496
Total	\$ 67,184	\$ 78,215

Fair value of debt securities	\$ 67,355	\$ 78,254
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	June 30, 2020	December 31, 2019
	(in thousands)	
Cash equivalents	\$ 21,906	\$ 34,053
Current marketable securities	45,278	42,153
Non-current marketable securities	—	2,009
Total	\$ 67,184	\$ 78,215

The Company does not intend to sell and it is unlikely that the Company will be required to sell the above investments before recovery of their amortized cost bases, which may be maturity. The Company determined that there was no material change in the credit risk of any of its investments.

The fair value of money market funds is determined based on publicly available market price for these funds (Level 1). The fair value of other debt securities is determined based on the publicly available inputs which includes a market price for the same or similar instruments adjusted for estimates in interest yield (Level 2).

4. Supplemental Balance Sheet Information

Prepaid expenses and other current assets consisted of the following:

	June 30, 2020	December 31, 2019
	(In thousands)	
Prepaid clinical and manufacturing costs	\$ 5,379	\$ 2,779
Prepaid general and administrative expenses	2,910	789
Interest receivable	155	259
Other	3,643	1,124
Total	<u>\$ 12,087</u>	<u>\$ 4,951</u>

Accrued expenses consisted of the following:

	June 30, 2020	December 31, 2019
	(In thousands)	
Accrued research and development expenses	\$ 11,780	\$ 6,618
Accrued general and administrative expenses	1,932	2,402
Accrued personnel costs	2,206	4,495
Other	13	21
Total	<u>\$ 15,931</u>	<u>\$ 13,536</u>

5. Income Taxes

The Company files income tax returns in the U.S. federal and Massachusetts jurisdictions as well as in the Netherlands. The components of the income tax expense (benefit) from continuing operations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
U.S. federal	\$ 94	\$ 44	\$ 38	\$ 98
U.S. state	36	17	12	37
Total current tax (benefit) expense	<u>\$ 130</u>	<u>\$ 61</u>	<u>\$ 50</u>	<u>\$ 135</u>
U.S. federal	\$ (63)	\$ 17	\$ 62	\$ 122
U.S. state	(36)	(7)	16	36
Total deferred tax expense	<u>\$ (99)</u>	<u>\$ 10</u>	<u>\$ 78</u>	<u>\$ 158</u>
Total tax expense	<u>\$ 31</u>	<u>\$ 71</u>	<u>\$ 128</u>	<u>\$ 293</u>

After consideration of all positive and negative evidence, we believe that it is more-likely-than-not that the Netherlands deferred tax assets will not be realized that are not supported by reversing temporary differences. As a result, we established a full valuation allowance against deferred tax assets of the Netherlands.

6. Commitments and Contingencies

Litigation

On April 5, 2018, an unnamed third party and Regeneron Pharmaceuticals Inc., or Regeneron filed notices of opposition against the Company's EP 2604625 patent, entitled "Generation of Binding Molecules," in the European Opposition Division of the European Patent Office (the "EPO"). The notices asserted, as applicable, added subject matter, lack of novelty, lack of inventive step, and insufficiency. Regeneron withdrew its opposition pursuant to a global December 20, 2018 settlement with the Company. On August 20, 2018, the Company timely responded to these submissions with respect to the unnamed third party. An opposition hearing was held in June 2019, wherein the EPO revoked the EP 2604625 patent in its entirety under Art. 123(2) EPC. We timely appealed that decision in December 2019 before the Technical Board of Appeals for the EPO seeking reinstatement of the patent and proposing auxiliary requests for certain amended claims, with further proceedings to be scheduled in the future. As this opposition proceeding continues, the Company cannot be certain that the Company will ultimately prevail.

From time to time, the Company may be involved in various other claims and legal proceedings relating to claims arising out of the Company's operations. The Company is not currently a party to any material legal proceedings.

7. Leases

There have been no changes in the Company's lease arrangements since December 31, 2019.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Lease cost				
Operating lease cost	\$ 396	\$ 347	\$ 792	\$ 590
Variable lease cost	107	44	189	95
Total lease cost included in operating expenses	\$ 503	\$ 391	\$ 981	\$ 685
Other information				
Cash paid for amounts included in the measurement of lease liabilities included in operating cash flows	\$ 396	\$ 493	\$ 789	\$ 733

8. Collaborations

Incyte

On January 23, 2017, the Company completed the sale of shares and exchange of a license. The Company initially deferred \$152.6 million of the transaction price allocated to the license and related activities performance obligation as deferred revenue, to be recognized as revenue over time as the primary benefit of the license to Incyte is access to the Company's intellectual property covering its Biclonics® technology platform for the generation of potential product candidates. Development milestones, commercialization milestones and royalties are variable consideration, fully constrained, to be recognized in future periods in accordance with the Company's revenue recognition policy. Cost reimbursements for research services are recognized as they are performed over time as these are considered a separate performance obligation.

At June 30, 2020, the Company is currently engaged in clinical development activities for MCLA-145 and developing pre-clinical candidates for the other programs. No development or commercialization milestones have been achieved to date.

ONO

On March 14, 2018, the Company granted ONO an exclusive, worldwide, royalty-bearing license, with the right to sublicense, research, test, make, use and market a limited number of bispecific antibody candidates based on the Company's Biclonics® technology platform against two undisclosed targets directed to a particular undisclosed target combination. ONO agreed to pay the Company an upfront, non-refundable payment of €0.7 million. In addition, the Company was entitled to €0.3 million intended to compensate the Company for research services already completed upon entering into the agreement, and €0.2 million to be paid to the Company over time for full-time equivalent funding. The Company is entitled to research and development milestones in addition to royalties on future sales. The Company identified performance obligations for: (1) provision of a license for the target combination, and (2) research and development services. The Company concluded that Ono would be able to develop and benefit from the license, independent of the research and development services. Certain of the research and development services are capable of being performed by third parties with an appropriate sublicense, and are recognized over time as these services are delivered. Milestone payments are fully constrained as variable consideration to be recognized in future periods in accordance with the Company's revenue recognition policy.

Amounts related to the provision of a license are amortized over the intended period of use. The Company received €1.0 million (approximately \$1.1 million) for the quarter ended March 31, 2019 for development milestones received from Ono based on their progress.

Simcere

In January 2018, the Company granted Simcere an exclusive license to develop and commercialize three bispecific antibodies to be produced by Merus utilizing the Company's Biclonics® technology platform in China. The Company received an upfront, non-refundable payment of \$2.75 million, relating to three separate research programs. The Company may be entitled to future development milestone payments. The Company will be eligible to receive tiered royalty payments on sales of any products resulting from the collaboration in China from Simcere. Simcere will be eligible to receive tiered royalty payments on sales outside of China from the Company.

At inception of the arrangement, the Company identified three performance obligations comprised of the combined delivery of a license and performance of research and development activities with respect to each program. The Company performs research and development activities to achieve candidate nomination. The Company concluded that these activities were not distinct from the

underlying license for each program as Simcere would not be able to benefit from the license apart from research and development activities at this phase of development.

The transaction price under the arrangement comprised fixed consideration of \$2.75 million. The transaction price was allocated to each separate performance obligation on a relative standalone fair value basis. The Company deferred the portion of the upfront payment allocated to the three performance obligations as deferred revenue, to be recognized over time. Compensation for research and development services prior to candidate nomination are allocated to each program performance obligation and also recognized over time. Development milestone payments allocated to each of the program performance obligations are constrained as variable consideration to be recognized in future periods in accordance with the Company's revenue recognition policy.

To date, the Company has achieved one milestone under this agreement and has received an aggregate of \$0.8 million in milestone payments. At June 30, 2020, research and development for three of the programs is on-going.

Contract Assets and Liabilities

The following tables provide amounts by year indicated and by line item included in the Company's accompanying condensed consolidated financial statements attributable to transactions arising from its collaboration arrangements. The dollar amounts in the tables below are in thousands.

	Related Party	Third Party		
	Incyte	Ono	Other	Total
CONTRACT ASSETS				
Accounts receivable				
Balance at January 1, 2020	\$ —	\$ 786	\$ —	\$ 786
Billings	2,952	—	150	150
Cash receipts	(2,027)	(772)	—	(772)
Adjustments	—	—	(11)	(11)
Foreign exchange	(27)	(14)	3	(11)
Balance at June 30, 2020	898	—	142	142
Unbilled receivables				
Balance at January 1, 2020	\$ 1,711	\$ —	\$ 155	\$ 155
Accrued receivables	2,163	—	94	94
Billings	(2,952)	—	(150)	(150)
Adjustments	—	—	(94)	(94)
Foreign exchange	(11)	—	(5)	(5)
Balance at June 30, 2020	911	—	—	—
CONTRACT LIABILITIES				
Deferred revenue				
Balance at January 1, 2020	\$ 108,538	\$ 336	\$ 1,385	\$ 1,721
Revenue recognized in the period	(8,732)	(97)	(426)	(523)
Foreign exchange	(488)	(2)	(12)	(14)
Balance at June 30, 2020	99,318	237	947	1,184
Less: current portion	(17,844)	(196)	(531)	(727)
Non-current balance at June 30, 2020	81,474	41	416	457

The balance of unbilled receivables predominantly represents reimbursement revenue under the Company's collaboration arrangements earned in the period to be billed and collected in the next period, generally quarterly. Incyte is a related party as a shareholder, as more fully described in Note 10.

Contract Revenues and Expenses

	Three Months Ended June 30, 2020			
	(In thousands)			
	Related Party	Third Party		
Incyte	Ono	Other	Total	
Upfront payments	\$ 4,363	\$ 48	\$ 236	\$ 284
Reimbursement revenue	1,509	—	(105)	(105)
Milestones	—	—	5	5
Total collaboration revenue	\$ 5,872	\$ 48	\$ 136	\$ 184
Operating expenses:				
Research and development expense	\$ 612	\$ —	\$ —	\$ —
General and administrative expense	—	—	—	—
Total operating expenses from collaborations	\$ 612	\$ —	\$ —	\$ —
Revenue recognized that was included in deferred revenue at the beginning of the period	\$ 4,363	\$ 48	\$ 242	\$ 290

	Three Months Ended June 30, 2019			
	(In thousands)			
	Related Party	Third Party		
Incyte	Ono	Other	Total	
Upfront payments	\$ 4,465	\$ 50	\$ 167	\$ 217
Reimbursement revenue	1,679	—	83	83
Milestones	—	—	36	36
Total collaboration revenue	\$ 6,144	\$ 50	\$ 286	\$ 336
Operating expenses:				
Research and development expense	\$ 162	\$ —	\$ —	\$ —
General and administrative expense	—	—	—	—
Total operating expenses from collaborations	\$ 162	\$ —	\$ —	\$ —
Revenue recognized that was included in deferred revenue at the beginning of the period	\$ 4,465	\$ 50	\$ 203	\$ 253

	Six Months Ended June 30, 2020			
	(In thousands)			
	Related Party Incyte	Third Party		
		Ono	Other	Total
Upfront payments	\$ 8,731	\$ 97	\$ 386	\$ 483
Reimbursement revenue	3,114	—	(11)	(11)
Milestones	—	—	40	40
Total collaboration revenue	<u>\$ 11,845</u>	<u>\$ 97</u>	<u>\$ 415</u>	<u>\$ 512</u>
Operating expenses:				
Research and development expense	\$ 764	\$ —	\$ —	\$ —
General and administrative expense	—	—	—	—
Total operating expenses from collaborations	<u>\$ 764</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Revenue recognized that was included in deferred revenue at the beginning of the period	\$ 8,731	\$ 97	\$ 426	\$ 523

	Six Months Ended June 30, 2019			
	(In thousands)			
	Related Party Incyte	Third Party		
		Ono	Other	Total
Upfront payments	\$ 8,927	\$ 99	\$ 366	\$ 465
Reimbursement revenue	4,444	99	71	170
Milestones	—	1,136	167	1,303
Total collaboration revenue	<u>\$ 13,371</u>	<u>\$ 1,334</u>	<u>\$ 604</u>	<u>\$ 1,938</u>
Operating expenses:				
Research and development expense	\$ 317	\$ —	\$ —	\$ —
General and administrative expense	—	—	—	—
Total operating expenses from collaborations	<u>\$ 317</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Revenue recognized that was included in deferred revenue at the beginning of the period	\$ 8,927	\$ 99	\$ 533	\$ 632

9. Employee Benefits

Stock-Based Compensation

Stock-based compensation expense is classified in the condensed consolidated statements of operations and comprehensive loss as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Research and development	\$ (261)	\$ 757	\$ 762	\$ 1,585
General and administrative	1,453	1,103	2,721	1,535
Total	<u>\$ 1,192</u>	<u>\$ 1,860</u>	<u>\$ 3,483</u>	<u>\$ 3,120</u>

The weighted-average grant date fair value of options, estimated as of the grant date using the Black Scholes option pricing model (2019: Hull White), was \$11.91 per option (2019: \$7.16 per option) for the 1,062,317 options (2019: 1,009,671 options) granted during the six months ended June 30, 2020. The significant weighted average valuation inputs included the risk-free interest rate 1.5% (2019: 2.6%), and volatility 85.6% (2019: 87.4%). A weighted average expected term of 6.1 years was used in the Black-Scholes option pricing model during the six months ended June 30, 2020 and the weighted-average contractual term of 10.0 years was used in the Hull White model during the six months ended June 30, 2019. The Company updates its valuation estimates and methodology to estimate the grant-date fair value of stock-based compensation periodically to reflect observable market data and exercise behavior.

In addition, the Company granted 46,474 RSUs during the six months ended June 30, 2020 (2019: none) having a weighted average grant date fair value of \$16.00 per unit.

Executive Settlements

In December 2019, in connection with the departure of Ton Logtenberg, the Chief Executive Officer of the Company, the Company awarded severance benefits, including the following: cash compensation of \$0.9 million, a grant of 30,000 RSUs, extended vesting of the executive's equity incentive awards through June 30, 2021 and extended exercisability of the executive's equity incentive awards through December 31, 2021. The cash compensation was paid by the Company on January 31, 2020. There were no substantive service conditions associated with the benefits awarded other than the passage of time. The Company incrementally recognized \$1.8 million in general and administrative expense associated with these benefits in the consolidated statement of operations for the year ended December 31, 2019.

In April 2020, Mark Throsby, Ph.D. resigned as the Executive Vice President and Chief Scientific Officer of the Company effective July 31, 2020. In connection with his departure, Mr. Throsby has entered into a Settlement Agreement with the Company, pursuant to which Mr. Throsby will be entitled to receive a severance payment equal to 8 months of his annual salary and amortized bonus aggregating approximately \$0.3 million. Further, subject to Mr. Throsby's continued compliance with the terms and conditions of the Settlement Agreement, Mr. Throsby's unvested equity awards will continue to vest until October 31, 2020 as if Mr. Throsby had continued in full time service with the Company through such date. The post-termination exercise period of Mr. Throsby's options was extended to March 31, 2021. The Company incrementally recognized \$0.1 million in respect of the severance payment and a net reversal of \$0.4 million of stock-based compensation expense in respect of share-based payments in research and development expense in the consolidated statement of operations for the three and six months ended June 30, 2020.

10. Related Party Transactions

The Company has entered into the Incyte collaboration and license agreement and the Incyte share subscription agreement with amounts related to transactions under the arrangement disclosed in Note 8 and the arrangement described in the Company's annual consolidated financial statements for the year ended December 31, 2019. Incyte is a shareholder with holdings representing approximately 11.0% of the outstanding shares of the Company as of June 30, 2020, and 11.1% as of December 31, 2019.

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

Our management’s discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared by us in accordance with accounting principles generally accepted in the United States, or GAAP, and with Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. This discussion and analysis is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and should be read in conjunction with these unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the discussion and analysis included in our Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

General

We are a clinical-stage oncology company developing innovative antibody therapeutics. Our pipeline of full-length human multispecific antibody candidates are generated from our proprietary technology platforms, which are able to generate a diverse array of antibody binding domains, or Fabs, against virtually any target. Each antibody binding domain consists of a target-specific heavy chain paired with a common light chain. Multiple binding domains can be combined to produce novel bispecific and trispecific antibodies that bind to a wide range of targets and display novel and innovative biology. These platforms referred to as Biclonics® and Triclonics™ allows us to generate large numbers of diverse panels of bispecific and trispecific antibodies, respectively, which can then be functionally screened in large-scale cell-based assays to identify those unique molecules that possess novel biology, which we believe are best suited for a given therapeutic application. Further, by binding to multiple targets, Biclonics® and Triclonics™ may be designed to provide a variety of mechanisms of action, including simultaneously blocking receptors that drive tumor cell growth and survival and mobilizing the patient’s immune response by engaging T cells, and/or activating various killer cells to eradicate tumors.

Our technology platforms employ an assortment of patented technologies and techniques to generate human antibodies. We utilize our patented MeMo® mouse to produce a host of antibodies with diverse heavy chains and a common light chain that are capable of binding to virtually any antigen target. We use our patented heavy chain dimerization technology to generate substantially pure bispecific and trispecific antibodies. We also employ our patented Spleen to Screen® technology to efficiently screen panels of diverse heavy chains, designed to allow us to rapidly identify Biclonics® and Triclonics™ therapeutic candidates with differentiated modes of action for pre-clinical testing and clinical development.

Using our Biclonics® platform we have produced, and are currently developing, the following candidates: MCLA-128, or zenocutuzumab, for the potential treatment of solid tumors that harbor Neuregulin 1 (NRG1) gene fusions; MCLA-158 for the potential treatment of solid tumors; and MCLA-145, developed in collaboration with Incyte Corporation, for the potential treatment of solid tumors and a hematological malignancy, B-cell lymphoma. MCLA-117 is a first-in-class Biclonics® T-cell engager antibody that is designed to engage CD3 on T-cells and to bind to and kill AML blasts via the CLEC12A antigen. While we do not plan to continue enrollment into dose expansion cohorts in the MCLA-117 trial, insights from this trial are being used to inform and maximize development of our CD3 T-cell engager platform. We are also developing a late-stage pre-clinical candidate, MCLA-129 in collaboration with Beta Pharmaceuticals, for the potential treatment of solid tumors. Furthermore, we have a pipeline of proprietary antibody candidates in pre-clinical development and intend to further leverage our Biclonics® technology platform and Triclonics™ technology platform to identify additional multi-specific antibody candidates and advance them to clinical development.

Funding Our Operations

We are a clinical-stage company and have not generated any revenue from product sales. We expect to incur significant expenses and operating losses for the foreseeable future as we advance our antibody candidates from discovery through pre-clinical development and into clinical trials, and seek regulatory approval and pursue commercialization of any approved antibody candidate. In addition, if we obtain regulatory approval for any of our antibody candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution.

We anticipate that we will require additional financing to support our continuing operations. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity or debt financings or other sources, which may include collaborations and business development opportunities with third parties. Adequate additional financing may not be available to us on acceptable terms, or at all. For example, the trading prices for our and other biopharmaceutical companies’ stock have been highly volatile as a result of the COVID-19 pandemic. As a result, we may face difficulties raising capital through sales of our common stock and any such sales may be on unfavorable terms. See “Impact of

COVID-19 Pandemic” below and “Risk Factors—The COVID-19 pandemic caused by the novel coronavirus has and may continue to adversely impact our business, including our pre-clinical studies and clinical trials, financial condition and results of operations.” in Part II, Item 1A of this Quarterly Report on Form 10-Q. Our inability to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy. We will need to generate significant revenue to achieve profitability, and we may never do so.

Based on our current operating plan, we expect that our existing cash, cash equivalents and marketable securities of \$197.4 million as of June 30, 2020 will be sufficient to fund our operations into the second half of 2022.

Clinical Programs

Zenocutuzumab (MCLA-128: HER3 x HER2 Biclomics®)

NRG1+ Cancers: Phase 1/2 eNRGy trial on track for year-end clinical update

We continue to enroll patients in the Phase 1/2 eNRGy trial to assess the safety and anti-tumor activity of zenocutuzumab (Zeno) monotherapy in NRG1 gene fusion-positive (NRG1+) solid tumors. The initial clinical responses reported in late 2019 support the potential for Zeno to be particularly effective in patients with NRG1+ cancers, a patient population with significant unmet need. Zeno was granted Orphan Drug Designation by the U.S. FDA for pancreatic cancer earlier this year.

Over 25 global clinical trial sites for the eNRGy trial are now open, with additional clinical trial sites being added globally. To date, we have observed a moderate to high impact on clinical trial enrollment and operations as a consequence of issues related to the COVID-19 pandemic. Our comprehensive patient recruitment strategy includes agreements with Caris Life Sciences (Caris), Foundation Medicine Inc. and Tempus Labs Inc., to identify NRG1+ patients and determine suitability of enrollment of these patients in the eNRGy trial and Early Access Program (EAP). In July 2020, we separately announced a collaboration with Caris to identify patients with NRG1+ cancers for potential participation in the eNRGy trial and EAP. This agreement with Caris focuses on screening for pancreatic cancer. Caris has agreed to provide tumor DNA and RNA molecular testing in this patient population that may otherwise not undergo molecular diagnostic testing due to the current lack of personalized, molecularly-driven treatment options for this cancer type.

Details of the eNRGy trial, including current trial sites, can be found at www.ClinicalTrials.gov and our trial website at www.nrg1.com, or by calling 1-833-NRG-1234.

MCLA-117 (CLEC12A x CD3 Biclomics®): Acute Myeloid Leukemia (AML)

MCLA-117 Phase 1 interim data presented at ASCO Virtual Meeting

MCLA-117 is a first-in-class bispecific (Biclomics®) T-cell engager antibody that is designed to engage CD3 on T-cells and to bind to and kill AML blasts via the CLEC12A antigen. It is being evaluated in a Phase 1 open-label, multicenter dose escalation study in patients with AML.

In May, we announced that MCLA-117 demonstrated clinical activity in terms of T-cell activation, mild to moderate cytokine release syndrome and blast count reductions in some patients and at some dose cohorts. However, we do not plan to continue enrollment into dose expansion cohorts in the trial. Insights from this trial are being used to inform and maximize development of our CD3 T-cell engager platform, which includes a panel of more than 175 novel and diverse T-cell CD3 fragment antigen-binding (Fab) binders across a wide range of affinities and attributes.

MCLA-158 (Lgr5 x EGFR Biclomics®): Solid Tumors

Phase 1 trial continues: Update expected by year end

MCLA-158 is currently being evaluated in a Phase 1 open-label, multicenter dose escalation study, including a safety dose expansion phase, in patients with solid tumors. The trial is ongoing and MCLA-158 has demonstrated a favorable safety profile with no observed dose limiting toxicities to date. We plan to provide a clinical update on the Phase 1 trial by year end.

MCLA-145 (CD137 x PD-L1 Biclomics®): Solid Tumors

Phase 1 trial advancing as planned

MCLA-145 is currently being evaluated in a Phase 1 open-label, multicenter dose escalation study, including a safety dose expansion phase, in patients with solid tumors. MCLA-145 is the first drug candidate co-developed under our global collaboration and license agreement with Incyte Corporation, which permits the development and commercialization of up to 11 bispecific and monospecific antibodies from our Biclomics® platform. We retain full rights to develop and commercialize MCLA-145, if approved, in the United States, and Incyte is responsible for its development and commercialization outside the United States.

MCLA-129 (EGFR x c-MET Biclomics®): Solid Tumors

IND-enabling studies ongoing

We are currently conducting IND-enabling studies of MCLA-129 for the treatment of various solid tumors in collaboration with Betta Pharmaceuticals (Betta). We presented preclinical data in late 2019 demonstrating that MCLA-129 inhibited the growth of tyrosine kinase resistant Non-Small Cell Lung Cancer (NSCLC) cell lines and NSCLC tumors in xenograft models. Betta holds exclusive rights to develop MCLA-129 in China, while we retain full ex-China rights.

Impact of COVID-19 Pandemic

The current COVID-19 pandemic has presented a substantial public health and economic challenge around the world and is affecting our employees, communities, clinical trial sites and business operations, as well as the U.S. and Dutch economies and international financial markets.

While we are currently continuing our ongoing clinical trials, the COVID-19 pandemic and related precautions have directly or indirectly impacted enrollment, new, planned clinical trial site openings, patient visits, and on-site monitoring of our clinical trials for zenocutuzumab, MCLA-117, MCLA-158 and MCLA-145. Merus has observed a moderate to high impact on clinical trial enrollment and operations as a consequence of the COVID-19 pandemic, particularly at sites in countries not yet open to recruitment, and to a lesser extent in countries where COVID-19 related restrictions have been eased, with adjustments made to allow remote visits for some patient follow-up, and reduced onsite monitoring by the sponsor or contract research organization (CRO). As a result of the COVID-19 pandemic, we may experience further disruptions that could severely impact our business, preclinical studies and clinical trials. The extent of the impact to our overall clinical development timeline is uncertain at this time and we continue to monitor and assess the COVID-19 pandemic on a regular basis.

As a result of the COVID-19 pandemic, certain of our CROs and third-party suppliers, as well as collaborators in the U.S. and China that are developing or collaborating with us to develop certain of our pre-clinical antibody candidates have been affected. As a result of such impact, we may face difficulties with and delays in performance of certain chemistry manufacturing and controls and testing of our pre-clinical antibody candidates, including MCLA-129, among other undisclosed pre-clinical candidates associated with our collaborations with Incyte and Sincere, which may delay or prevent their potential clinical development. While we currently do not anticipate any interruptions in our clinical trial supply of drug candidates, it is possible that the COVID-19 pandemic and response efforts may have an impact in the future on our third-party suppliers and contract manufacturing partners' ability to manufacture our clinical trials supply.

In response to the spread of COVID-19, on March 18, 2020, we temporarily suspended our laboratory research activities at our facilities in Utrecht, the Netherlands to help secure the safety of our employees and to adhere to government recommendations of social distancing and limited public exposure in connection with the COVID-19 pandemic. We have since re-opened our offices and laboratory in Utrecht, maintaining social distancing and imposing other requirements consistent with government guidance.

At this time, there is significant uncertainty caused by the COVID-19 pandemic and impact of related responses. The future impact of COVID-19 on our business and clinical trials will largely depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the pandemic, travel restrictions and social distancing in the Netherlands, the United States and other countries, business closures or business disruptions, the ultimate impact of COVID-19 on financial markets and the global economy, and the effectiveness of actions taken in the Netherlands, the United States and other countries to contain and treat the disease. See "Risk Factors—The COVID-19 pandemic caused by the novel coronavirus has and may continue to adversely impact our business, including our pre-clinical studies and clinical trials, financial condition and results of operations." in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Collaborations

Refer to Item 1, "Business—Our Collaborations" and Note 12, "Collaborations," of the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 16, 2020 (as amended, the "Annual Report on Form 10-K") for a description of the key terms of our arrangements.

Discussion and Analysis of our Results of Operations

In prior periods, we prepared our financial information in accordance with IFRS. As a consequence of becoming a U.S. domestic issuer as of January 1, 2020, we are required to present our financial information in accordance with U.S. GAAP and expressed in U.S. dollars from that date. The below financial information has been prepared in accordance with U.S. GAAP. The financial information should not be expected to correspond to figures we have previously presented under IFRS.

Comparison of the Three and Six Months Ended June 30, 2020 and 2019

Revenue

The following is a comparison of revenue:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Incyte	\$ 5.9	\$ 6.1	\$ (0.2)	\$ 11.8	\$ 13.4	\$ (1.6)
Ono	—	0.1	(0.1)	0.1	1.3	(1.2)
Other	0.2	0.3	(0.1)	0.4	0.6	(0.2)
Total collaboration revenue	6.1	6.5	(0.4)	12.3	15.3	(3.0)
Grant revenue	—	(0.1)	0.1	—	(0.1)	0.1
Total revenue	6.1	6.4	(0.3)	12.3	15.2	(2.9)

Collaboration revenue for the three months ended June 30, 2020 decreased by \$0.4 million as compared to the three months ended June 30, 2019, primarily as a result of a decrease in Incyte reimbursement revenue of \$0.2 million, and a decrease of \$0.2 million in reimbursement revenue under other collaboration arrangements. The change in exchange rates did not significantly impact collaboration revenue.

Collaboration revenue for the six months ended June 30, 2020 decreased by \$3.0 million as compared to six months ended June 30, 2019 primarily as a result of a decrease in Incyte reimbursement revenue of \$1.3 million and amortization of upfront payments of \$0.2 million due to the effects of foreign exchange, a decrease in Ono milestone revenue of \$1.1 million in addition to other decreases of \$0.3 million.

As of June 30, 2020, we have total deferred revenue of \$100.5 million, which primarily relates to the upfront payment received under our Incyte collaboration agreement and is expected to be recognized over the next six years.

Operating Expenses

The following is a comparison of operating expenses:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Research and development	\$ 13.7	\$ 10.8	\$ 2.9	\$ 30.7	\$ 22.6	\$ 8.1
General and administrative	8.0	8.2	(0.2)	16.9	15.0	1.9
Total operating expenses	\$ 21.7	\$ 19.0	\$ 2.7	\$ 47.6	\$ 37.6	\$ 10.0

Research and development expense for the three months ended June 30, 2020 increased by \$2.9 million as compared to the three months ended June 30, 2019, primarily as a result of an increase in headcount and higher pre-clinical research and development-related costs related to our programs, particularly increases in costs for zenocutuzumab. On a comparative basis, stock-based compensation included in research and development costs for the three months ended June 30, 2020 decreased by \$1.0 million compared to the three months ended June 30, 2019, primarily due to the modification and forfeiture of awards held by departing executives.

Research and development expense for the six months ended June 30, 2020 increased by \$8.1 million as compared to the six months ended June 30, 2019, primarily as a result of an increase in headcount and higher pre-clinical research and development-related costs related to our programs, particularly increases in costs for zenocutuzumab offset by decreases in costs for MCLA-145. On a comparative basis, stock-based compensation included in research and development costs for the six months ended June 30, 2020

decreased by \$0.8 million compared to the six months ended June 30, 2019, primarily due to the modification and forfeiture of awards held by departing executives.

General and administrative expense for the three months ended June 30, 2020 decreased by \$0.2 million as compared to the three months ended June 30, 2019, primarily as a result of lower consulting costs offset by increases in stock-based compensation, IP related costs and other items.

General and administrative expense for the six months ended June 30, 2020 increased by \$1.9 million as compared to the six months ended June 30, 2019, primarily as a result of an increase in headcount, stock-based compensation, facilities and professional fees, offset by decreases in consulting cost.

Other Income (Loss), Net

The following is a comparison of other income, net:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Interest income, net	\$ 0.1	\$ 0.5	\$ (0.4)	\$ 0.4	\$ 1.2	\$ (0.8)
Foreign exchange gains (losses)	(2.3)	(1.2)	(1.1)	0.5	1.0	(0.5)
Total other income (loss), net	\$ (2.2)	\$ (0.7)	\$ (1.5)	\$ 0.9	\$ 2.2	\$ (1.3)

Other income (loss), net consists of interest earned on our cash and cash equivalents held on account, accretion of investment earnings and net foreign exchange gains on our foreign denominated cash, cash equivalents and marketable securities.

Income Tax Expense

The following is a comparison of income tax expense:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)			(In millions)		
Current	\$ 0.1	\$ 0.1	\$ —	\$ 0.1	\$ 0.1	\$ —
Deferred	(0.1)	—	(0.1)	0.1	0.2	(0.1)
Total other income, net	\$ —	\$ 0.1	\$ (0.1)	\$ 0.2	\$ 0.3	\$ (0.1)

We are subject to income taxes in the Netherlands and the U.S. Our current and deferred tax provision represents taxable income attributed to our U.S. operations as a consequence of allocating income to that jurisdiction. No current or deferred provision for income taxes has been made for income taxes in the Netherlands due to losses for tax purposes. Further, given a history of losses in the Netherlands, no deferred tax assets in excess of deferred tax liabilities are recognized as it is not more likely than not that they will be recovered.

Net Loss

Net loss for the three and six months ended June 30, 2020 was \$18.0 million and \$34.5 million, respectively, compared to net loss for the three and six months ended June 30, 2019 of \$13.4 million and \$20.5 million, respectively. The change in net loss was primarily due to the change in collaboration revenue, changes in operating expenses and changes in other income (loss), net, as discussed above.

Material Changes in Financial Condition

Sources of Cash

As of June 30, 2020, we had \$197.4 million in cash, cash equivalents and marketable securities that are available to fund our current operations. In addition to our existing cash, cash equivalents and marketable securities, we may receive research and development co-funding and are eligible to earn a significant amount of milestone payments under our collaboration agreements and research license agreements. Our ability to earn these payments and the timing of earning these payments is dependent upon the outcome of our research and development activities and is uncertain at this time.

Funding Requirements

Our primary uses of capital are, clinical trial costs, chemistry manufacturing and control costs to manufacture and supply drug product for our clinical trials, third-party research and development services, laboratory and related supplies, financial services, legal and other regulatory expenses and general overhead costs.

Because our product candidates are in various stages of clinical and pre-clinical development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates or whether, or when, we may achieve profitability. In addition, the magnitude and duration of the COVID-19 pandemic and its impact on our liquidity and future funding requirements is uncertain as of the filing date of this Quarterly Report on Form 10-Q, as the pandemic continues to evolve globally. See “Impact of COVID-19 Pandemic” above and “Risk Factors— The COVID-19 pandemic caused by the novel coronavirus has and may continue to adversely impact our business, including our pre-clinical studies and clinical trials, financial condition and results of operations.” in Part II, Item 1A of this Quarterly Report on Form 10-Q for a further discussion of the possible impact of the COVID-19 pandemic on our business.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity or debt financings, collaboration arrangements, license agreements, other business development opportunities, and government grants.

Except for any obligations of our collaborators or licensees to make license, milestone or royalty payments under our agreements with them, and government grants, we do not have any committed external sources of liquidity and currently have no credit facility. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interest of our stockholders may be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. Debt financing and preferred equity 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. If we raise additional funds through collaboration arrangements, license agreements or other business development opportunities in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise any additional funds that may be needed through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Outlook

Based on our research and development plans and our timing expectations related to the progress of our programs, we expect that our existing cash, cash equivalents and marketable securities as of June 30, 2020, will be sufficient to fund our planned operating expenses and capital expenditure requirements into the second half of 2022, without giving effect to any potential milestone payments we may receive under our collaboration and license agreements. We have based this estimate on assumptions that may prove to be wrong, particularly as the process of testing product candidates in clinical trials is costly and the timing of progress in these trials is uncertain and in light of the uncertainties associated with the magnitude and duration of the COVID-19 pandemic. As a result, we could use our capital resources sooner than we expect.

Cash Flows

The following is a summary of cash flows:

	Six Months Ended June 30,		
	2020	2019	Change
	(In millions)		
Net cash used in operating activities	\$ (43.9)	\$ (29.3)	\$ (14.6)
Net cash (used in) provided by investing activities	(1.3)	15.6	(16.9)
Net cash provided by financing activities	0.7	—	0.7

Net cash used in operating activities during the six months ended June 30, 2020 increased by \$14.6 million as compared to the six months ended June 30, 2019, primarily due to operating cash receipts related to revenue arrangements decreasing by \$4.5 million, operating cash out flows related to operating expenses increasing by \$9.5 million and a decrease in cash realized from interest income and foreign exchange of \$0.7 million.

Net cash used in investing activities during the six months ended June 30, 2020 principally reflects \$28.9 million of purchases of marketable partially offset by maturities of marketable securities of \$28.2 million. Net cash provided by investing activities during the six months ended June 30, 2019 principally reflects \$34.4 million of purchases of marketable securities, offset by maturities of marketable securities of \$50.9 million.

Net cash provided by financing activities during the six months ended June 30, 2020 primarily reflects proceeds received from stock option exercises of \$0.9 million partially offset by payments of public offering costs of \$0.2 million. Net cash provided by financing activities during the six months ended June 30, 2019 primarily reflects cash received from stock option exercises of less than \$0.1 million.

Critical Accounting Policies and Use of Estimates

Our critical accounting policies are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in our Annual Report on Form 10-K and in Note 2 to our consolidated financial statements included in the Annual Report on Form 10-K. As disclosed in Note 2, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates. During the period covered by this Quarterly Report on Form 10-Q, there were no material changes to our critical accounting policies from those discussed in our Annual Report on Form 10-K, other than updating our use of the option pricing model and associated estimates as described in Note 9 to our unaudited condensed consolidated interim financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Recently Adopted Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our condensed consolidated financial statements, see Note 2, *Summary of Significant Accounting Policies—Pending Accounting Pronouncements*, in the accompanying notes to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable as a Smaller Reporting Company.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on such evaluation, our principal executive and financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On April 5, 2018, an unnamed third party and Regeneron Pharmaceuticals Inc., or Regeneron, filed notices of opposition against our EP 2604625 patent, entitled “Generation of Binding Molecules,” in the European Opposition Division of the European Patent Office, or the EPO. The notices asserted, as applicable, added subject matter, lack of novelty, lack of inventive step, and insufficiency. Regeneron withdrew its opposition pursuant to a global December 20, 2018 settlement with us. On August 20, 2018, we timely responded to the submissions with respect to the unnamed third party. An opposition hearing was held in June 2019, wherein the EPO revoked the EP 2604625 patent in its entirety under Art. 123(2) EPC. We timely appealed that decision in December 2019 before the Technical Board of Appeals for the EPO seeking reinstatement of the patent and proposing auxiliary requests for certain amended claims, with further proceedings to be scheduled in the future. As this opposition proceeding continues, we cannot be certain that we will ultimately prevail.

From time to time, we may be involved in various other claims and legal proceedings relating to claims arising out of our operations. We are not currently a party to any legal proceedings, which could be deemed to be material.

Item 1A. Risk Factors

Careful consideration should be given to the following risk factors, in addition to the other information set forth in this Quarterly Report on Form 10-Q and in other documents that we file with the SEC, in evaluating our company and our business. Investing in our common stock involves a high degree of risk. If any of the following risks and uncertainties actually occurs, our business, prospects, financial condition and results of operations could be materially and adversely affected. The risks described below are not intended to be exhaustive and are not the only risks facing our company. New risk factors can emerge from time to time, and it is not possible to predict the impact that any factor or combination of factors may have on our business, prospects, financial condition and results of operations.

Risks Related to Our Business and Industry

We are a clinical-stage company and have incurred significant losses since our inception. We expect to incur losses for the foreseeable future and may never achieve or maintain profitability.

We are a clinical-stage oncology company with a limited operating history. We have incurred net losses of \$34.5 million, and \$20.5 million for the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, we had an accumulated deficit of \$349.1 million. Our losses have resulted principally from expenses incurred in research and development of our antibody candidates and from management and administrative costs and other expenses that we have incurred while building our business infrastructure. We expect to continue to incur significant operating losses for the foreseeable future as we continue our research and development efforts and seek to obtain regulatory approval and commercialization of our antibody candidates. We anticipate that our expenses will increase substantially as we:

- conduct our ongoing, single agent, Phase 1/2 eNRGy clinical trial of zenocutuzumab, our most advanced bispecific antibody candidate, for the treatment of solid tumors harboring neuregulin 1 (NRG1) gene fusions and conclude our ongoing Phase 2 clinical trial for the treatment of metastatic breast cancer in combination with other therapies;
- complete our ongoing dose-escalation portion of our Phase 1 clinical trial of MCLA-117, our bispecific antibody candidate, for the treatment of acute myeloid leukemia (AML);
- conduct our ongoing Phase 1 clinical trial of MCLA-158 for the treatment of solid tumors;
- conduct our ongoing Phase 1 clinical trial for MCLA-145 for the treatment of advanced solid tumors and B-cell lymphomas, which is being co-developed with Incyte Corporation (Incyte);
- continue the research and development of our other pre-clinical antibody candidates, including the development of MCLA-129 in collaboration with Betta Pharmaceuticals Co. Ltd. (Betta);
- expand our clinical programs to explore new potential combination therapies or indications;
- expand and enhance our technology platforms, including our Biconics® technology platform which generates our pipeline of bispecific product candidates, our Triconics™ technology platform, which generates pre-clinical trispecific candidates and discover and develop additional multispecific antibody candidates;
- seek regulatory approvals for any antibody candidates that successfully complete clinical trials;

- potentially establish a sales, marketing and distribution infrastructure and scale-up manufacturing capabilities to commercialize any products for which we may obtain regulatory approvals;
- maintain, expand and protect our intellectual property portfolio;
- secure, maintain and/or obtain freedom to operate for our technologies and products;
- add clinical, scientific, operational, financial, information technology and management information systems and personnel, including personnel to support our product development and potential future commercialization efforts and to support our operation as a public company; and
- experience any delays or encounter any issues with any of the above, including but not limited to failed studies, complex results, manufacturing challenges, safety issues or other regulatory challenges.

We have financed our operations primarily through public offerings and private placements of our common shares and our collaboration and license agreement with Incyte. We have devoted a significant portion of our financial resources and efforts to developing our full-length human bispecific antibody therapeutics, which we refer to as Biclonics[®], our technology platforms, identifying potential antibody candidates, conducting pre-clinical studies of a variety of candidates, and conducting our clinical trials of zenocutuzumab, MCLA-117, MCLA-158, and MCLA-145. We are in the early stages of development of our antibody candidates, and we have not completed development of any Biclonics[®] or any other drugs or biologics.

To become and remain profitable, we must succeed in developing and eventually commercializing products that generate significant revenue. This will require us to be successful in a range of challenging activities, including completing pre-clinical testing and clinical trials of our bispecific antibody candidates, discovering and developing additional bispecific and trispecific antibody candidates, obtaining regulatory approval for any antibody candidates that successfully complete clinical trials, establishing manufacturing and marketing capabilities and ultimately selling any products for which we may obtain regulatory approval. We are only in the preliminary stages of most of these activities. We may never succeed in these activities and, even if we do, may never generate revenue that is significant enough to achieve profitability.

Because of the numerous risks and uncertainties associated with pharmaceutical product and biological development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. If we are required by the U.S. Food and Drug Administration (FDA), or the European Medicines Agency (EMA), or other regulatory authorities to perform studies in addition to those we currently anticipate, or if there are any delays in completing our clinical trials or the development of any of our antibody candidates, our expenses could increase and commercial revenue could be further delayed.

Even if we do generate product royalties or product sales, we may never achieve or sustain profitability on a quarterly or annual basis. Our failure to sustain profitability would depress the market price of our common shares and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations.

We will need additional funding in order to complete development of our antibody candidates and commercialize our products, if approved. If we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development programs or commercialization efforts.

We expect our expenses to increase in connection with our ongoing activities, particularly as we conduct our ongoing clinical trials of zenocutuzumab, MCLA-158, and MCLA-145, complete the dose expansion phase of our trial of MCLA-117, and continue to research, develop and conduct pre-clinical studies of our other antibody candidates. In addition, if we obtain regulatory approval for any of our antibody candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. Furthermore, we continue to incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts. For example, the trading prices for our and other biopharmaceutical companies' stock have been highly volatile as a result of the COVID-19 pandemic. As a result, we may face difficulties raising capital through sales of our common stock and any such sales may be on unfavorable terms.

Based on our current operating plan, we expect that our existing cash, cash equivalents and investments as of June 30, 2020 will be sufficient to fund our operations into the second half of 2022. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. Our future capital requirements will depend on many factors, including:

- the cost, progress and results of our ongoing clinical trials of zenocutuzumab and the Phase 1 clinical trials of MCLA-117, MCLA-158, and MCLA-145;

- the success of our collaboration with Incyte to develop monospecific and bispecific antibodies candidates, including our ongoing Phase 1 clinical trial for MCLA-145;
- the cost of manufacturing clinical supplies of our bispecific antibody candidates;
- the scope, progress, results and costs of pre-clinical development, laboratory testing and clinical trials for our other bispecific and multispecific antibody candidates;
- the costs, timing and outcome of regulatory review of any of our antibody candidates;
- the costs and timing of future commercialization activities, including manufacturing, marketing, sales and distribution, for any of our antibody candidates to the extent any receive marketing approval;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims, including any potential future claims by third parties that we are alleged to be infringing upon their intellectual property rights;
- the costs and timing of securing, maintaining and/or obtaining freedom to operate for our technologies and products;
- the revenue, if any, received from commercial sales of our antibody candidates to the extent any receive marketing approval;
- the effect of competing technological and market developments; and
- the extent to which we acquire or invest in businesses, products and technologies, including our existing collaborations and any other future licensing or collaboration arrangements for any of our antibody candidates.

We depend heavily on the success of our antibody candidates, and we cannot give any assurance that any of our antibody candidates will receive regulatory approval, which is necessary before they can be commercialized. If we, any of our collaborators, or any other strategic partners we may enter into collaboration agreements with for the development and commercialization of our antibody candidates, are unable to commercialize our antibody candidates, or experience significant delays in doing so, our business, financial condition and results of operations will be materially adversely affected.

We have invested a significant portion of our efforts and financial resources in the development of bispecific antibody candidates using our Biclonics® technology platform and in development of multispecific antibody candidates using our Triclonics™ technology platform. Our ability to generate royalty and product revenues, which we do not expect will occur for at least the next several years, if ever, will depend heavily on the successful development and eventual commercialization of these antibody candidates, which may never occur. We currently generate no revenues from sales of any products, and we may never be able to develop or commercialize a marketable product. Each of our bispecific antibody candidates and pre-clinical trispecific antibody candidates will require additional clinical development, management of clinical, pre-clinical and manufacturing activities, regulatory approval in multiple jurisdictions, obtaining manufacturing supply, including commercial manufacturing supply, building of a commercial organization, substantial investment and significant marketing efforts before we generate any revenues from product sales. We are not permitted to market or promote any of our antibody candidates before we receive regulatory approval from the FDA, the EMA or comparable foreign regulatory authorities, and we may never receive such regulatory approval for any of our antibody candidates. The success of our antibody candidates will depend on several factors, including the following:

- for antibody candidates which we may license to others, such as to our collaborators, the successful efforts of those parties in completing clinical trials of, receipt of regulatory approval for and commercialization of such antibody candidates;
- for the antibody candidates to which we retain rights, completion of pre-clinical studies and clinical trials of, receipt of marketing approvals for, establishment of commercial manufacturing supplies of and successful commercialization of such antibody candidates; and
- for all of our antibody candidates, if approved, acceptance of our antibody candidates by patients, the medical community and third-party payors, effectively competing with other therapies, a continued acceptable safety profile following approval and qualifying for, maintaining, enforcing and defending our intellectual property rights and claims.

If we or our collaborators, as applicable, do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our antibody candidates, which would materially adversely affect our business, financial condition and results of operations.

We have not previously submitted a Biologics License Application (BLA), to the FDA, a Marketing Authorisation Application (MAA) to the EMA, or similar regulatory approval filings to comparable foreign authorities, for any antibody candidate, and we cannot be certain that any of our antibody candidates will be successful in clinical trials or receive regulatory approval. Further, our

antibody candidates may not receive regulatory approval even if they are successful in clinical trials. If we do not receive regulatory approvals for our antibody candidates, we may not be able to continue our operations. Even if we successfully obtain regulatory approvals to market one or more of our antibody candidates, our revenues will be dependent, in part, upon the size of the markets in the territories for which we gain regulatory approval and have commercial rights. If the markets for patient subsets that we are targeting are not as significant as we estimate, we may not generate significant revenues from sales of such products, if approved.

We plan to seek regulatory approval to commercialize our antibody candidates both in the United States and the EU, and potentially in additional foreign countries. While the scope of regulatory approval is similar in other countries, to obtain separate regulatory approval in many other countries we must comply with the numerous and varying regulatory requirements of such countries regarding safety and efficacy and governing, among other things, clinical trials and commercial sales, pricing and distribution of our antibody candidates, and we cannot predict success in these jurisdictions.

The Biclomics® technology platform and Triclomics™ technology platform are unproven, novel approaches to the production of molecules for therapeutic intervention.

We have not received regulatory approval for a therapeutic based on a full-length human bispecific or trispecific IgG approach. We cannot be certain that our approach will lead to the development of approvable or marketable products. In addition, our Biclomics® and Triclomics™ may have different effectiveness rates in various indications and in different geographical areas. Finally, the FDA, the EMA or other regulatory agencies may lack experience in evaluating the safety and efficacy of products based on Biclomics® and Triclomics™ therapeutics, which could result in a longer than expected regulatory review process, increase our expected development costs and delay or prevent commercialization of our antibody candidates.

Our Biclomics® and Triclomics™ technology platforms rely on third parties for biological materials. Some biological materials have not always meet our expectations or requirements, and any disruption in the supply of these biological materials could materially adversely affect our business. Although we have control processes and screening procedures, biological materials are susceptible to damage and contamination and may contain active pathogens. Improper storage of these materials, by us or any third-party suppliers, may require us to destroy some of our biological raw materials or antibody candidates.

Failure to successfully validate, develop and obtain regulatory approval for companion diagnostics could harm our development strategy.

We may seek to identify patient subsets within a disease category that may derive selective and meaningful benefit from the antibody candidates we are developing. Through collaborations or license agreements, we may develop companion diagnostics to help us to more accurately identify patients within a particular subset, both during our clinical trials and in connection with the commercialization of our antibody candidates, if approved. Companion diagnostics are subject to regulation by the FDA, the EU legislative bodies, and comparable foreign regulatory authorities as medical devices and typically require separate regulatory approval prior to commercialization. If needed, we intend to develop companion diagnostics in collaboration with or via license agreements with third parties and are dependent on the scientific insights and sustained cooperation and effort of any third-party collaborators in developing and obtaining approval for companion diagnostics. We and our collaborators may encounter difficulties in developing and obtaining approval for any companion diagnostics, including issues relating to selectivity/specificity, analytical validation, reproducibility or clinical validation. Any delay or failure by us or our collaborators to develop or obtain regulatory approval of companion diagnostics could delay or prevent approval of our antibody candidates. In addition, our collaborators may encounter production difficulties that could constrain the supply of the companion diagnostics, and both they and we may have difficulties gaining acceptance of the use of the companion diagnostics in the clinical community. If such companion diagnostics fail to gain market acceptance, it would have an adverse effect on our ability to derive revenues from sales of our products. In addition, the diagnostic company with whom we contract may decide to discontinue selling or manufacturing the companion diagnostic that we anticipate using in connection with development and commercialization of our antibody candidates or our relationship with such diagnostic company may otherwise terminate. We may not be able to enter into arrangements with another diagnostic company to obtain supplies of an alternative companion diagnostic test for use in connection with the development and commercialization of our antibody candidates or do so on commercially reasonable terms, which could adversely affect and/or delay the development or commercialization of our antibody candidates.

Our limited operating history may make it difficult for you to evaluate the success of our business to date and to assess our future viability.

Since our inception in 2003, we have devoted a significant portion of our resources to developing zenocutuzumab, MCLA-117, MCLA-158, MCLA-145 and our other antibody candidates, building our intellectual property portfolio, developing our clinical manufacturing supply chain, generating and enhancing our Biclomics® technology platform, generating our Triclomics™ technology platform, planning our business, raising capital and providing general and administrative support for these operations. While we have ongoing clinical trials for zenocutuzumab, MCLA-117, MCLA-158, and MCLA-145, we have not completed any clinical trials for any antibody candidate. We have not yet demonstrated our ability to successfully complete any Phase 2 clinical trial or any Phase 3 or other pivotal clinical trials, obtain regulatory approvals, manufacture a commercial scale product or arrange for a third party to do so on our behalf or conduct sales and marketing activities necessary for successful product commercialization. Additionally, we expect our financial condition and operating results to continue to fluctuate significantly from quarter to quarter and year to year due to a

variety of factors, many of which are beyond our control. Consequently, any predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history.

Raising additional capital may cause dilution to our holders, restrict our operations or require us to relinquish rights to our technologies or antibody candidates.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through equity or debt financings and upfront and milestone payments, if any, received under our existing collaborations and any other future licenses or collaborations, together with our existing cash and cash equivalents. In order to accomplish our business objectives and further develop our product pipeline, we will, however, need to seek additional funds. If we raise additional capital through the sale of equity or convertible debt securities, our existing shareholders' ownership interests will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our existing shareholders' rights as holders of our common shares. In addition, the possibility of such issuance may cause the market price of our common shares to decline. Debt financing, if available, may result in increased fixed payment obligations and involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, declaring dividends, or acquiring, selling or licensing intellectual property rights, which could adversely impact our ability to conduct our business.

If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our intellectual property, technologies, future revenue streams or antibody candidates or grant licenses on terms that may not be favorable to us. We could also be required to seek funds through arrangements with collaborators or others at an earlier stage than otherwise would be desirable. Any of these occurrences may have a material adverse effect on our business, operating results and prospects.

Any additional fundraising efforts may divert our management from their day-to-day activities, which may adversely affect our ability to develop and commercialize our antibody candidates. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. For example, the trading prices for our and other biopharmaceutical companies' stock have been highly volatile as a result of the COVID-19 pandemic. As a result, we may face difficulties raising capital through sales of our common stock and any such sales may be on unfavorable terms. If we are unable to obtain funding on a timely basis, we may be required to significantly curtail, delay or discontinue one or more of our research or development programs or the commercialization of any of our antibody candidates, if approved, or be unable to expand our operations or otherwise capitalize on our business opportunities, as desired, which could materially affect our business, financial condition and results of operations.

Our business may become subject to economic, political, regulatory and other risks associated with international operations

As a company based in the Netherlands, our business is subject to risks associated with conducting business internationally. Many of our suppliers and collaborative and clinical trial relationships are located outside the United States. Accordingly, our future results could be harmed by a variety of factors, including:

- economic weakness, including inflation, or political instability, in particular, in non-U.S. economies and markets;
- differing regulatory requirements for drug approvals in non-U.S. countries;
- differing jurisdictions could present different issues for securing, maintaining and/or obtaining freedom to operate in such jurisdictions;
- potentially reduced protection for intellectual property rights;
- difficulties in compliance with non-U.S. laws and regulations;
- changes in non-U.S. regulations and customs, tariffs and trade barriers;
- changes in non-U.S. currency exchange rates of the euro and currency controls;
- changes in a specific country's or region's political or economic environment;
- trade protection measures, import or export licensing requirements or other restrictive actions by U.S. or non-U.S. governments;
- differing reimbursement regimes and price controls in certain non-U.S. markets;
- negative consequences from changes in tax laws;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;

- compliance with international privacy regulations, including the General Data Protection Regulation (GDPR);
- negative consequences from Brexit, and its potential impact on supply-chain and our personnel;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- difficulties associated with staffing and managing international operations, including differing labor relations;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geo-political actions, including war, riots and terrorism, or natural disasters including earthquakes, typhoons, floods, fires, epidemics or public health emergencies and U.S. or non-U.S. governmental actions or restrictions related thereto.

Exchange rate fluctuations or abandonment of the euro currency may materially affect our results of operations and financial condition.

Due to the international scope of our operations, fluctuations in exchange rates, particularly between the euro and the U.S. dollar, may adversely affect us. Although we are based in the Netherlands, we source research and development, manufacturing, consulting and other services from several countries. Further, potential future revenue may be derived from abroad, particularly from the United States. Additionally, our funding has mainly come from investors and collaborators mainly in the United States. As a result, our business and share price may be affected by fluctuations in foreign exchange rates between the euro and these other currencies, which may also have a significant impact on our reported results of operations and cash flows from period to period. Currently, we do not have any exchange rate hedging arrangements in place.

In addition, the possible abandonment of the euro by one or more members of the EU could materially affect our business in the future. Despite measures taken by the EU to provide funding to certain EU member states in financial difficulties and by a number of European countries to stabilize their economies and reduce their debt burdens, it is possible that the euro could be abandoned in the future as a currency by countries that have adopted its use. This could lead to the re-introduction of individual currencies in one or more EU member states, or in more extreme circumstances, the dissolution of the EU. The effects on our business of a potential dissolution of the EU, the exit of one or more EU member states from the EU or the abandonment of the euro as a currency, are impossible to predict with certainty, and any such events could have a material adverse effect on our business, financial condition and results of operations.

Risks from improper conduct by our employees, agents, contractors, or collaborators could adversely affect our reputation, business, prospects, operating results, and financial condition.

We cannot ensure that our compliance controls, policies, and procedures will in every instance protect us from acts committed by our employees, agents, contractors, or collaborators that would violate the laws or regulations of the jurisdictions in which we operate, including, without limitation, health care, employment, foreign corrupt practices, trade restrictions and sanctions, environmental, import and export requirements, competition, and patient privacy and other privacy laws and regulations. Such improper actions could subject us to civil or criminal investigations, and monetary and injunctive penalties, and could adversely impact our ability to conduct business, operating results, and reputation.

We are subject to a number of anti-corruption laws, including the Foreign Corrupt Practices Act (FCPA) in the United States, the Bribery Act in the United Kingdom and the anti-corruption provisions of the Dutch Criminal Code in the Netherlands. Our failure to comply with anti-corruption laws applicable to us could result in penalties, which could harm our reputation and harm our business, financial condition, results of operations, cash flows or prospects. The FCPA generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of improperly or corruptly obtaining or keeping business, obtaining preferential treatment and/or other undue benefits or advantages. The FCPA also requires public companies to maintain accurate books and records and devise a system of sufficient internal accounting controls. We regularly review and update our policies and procedures and internal controls designed to provide reasonable assurance that we, our employees, distributors and other intermediaries comply with the anti-corruption laws to which we are subject. However, there are inherent limitations to the effectiveness of any policies, procedures and internal controls, including the possibility of human error and the circumvention or overriding of the policies, procedures and internal controls. There can be no assurance that such policies or procedures or internal controls will work effectively at all times or protect us against liability under these or other laws for actions taken by our employees, distributors and other intermediaries with respect to our business.

The Securities and Exchange Commission (SEC) and Department of Justice continue to view FCPA enforcement activities as a high priority. There is no certainty that all of our employees, agents, contractors, or collaborators, or those of our affiliates, will comply with all applicable laws and regulations, particularly given the high level of complexity of these laws. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers, or our employees, requirements to obtain export licenses, cessation of business activities in sanctioned countries, implementation of compliance programs, and prohibitions on the conduct of

our business. Any such violations could materially damage our reputation, our brand, our international operations, our ability to attract and retain employees, and our business, prospects, operating results, and financial condition.

The United Kingdom's withdrawal from the European Union may have a negative effect on global economic conditions and financial markets, which could materially affect our financial condition and results of operations.

Following a national referendum and enactment of legislation by the government of the United Kingdom, the United Kingdom formally withdrew from the EU on January 31, 2020 and entered into a transition period during which it will continue its ongoing and complex negotiations with the EU relating to the future relationship between the parties. Significant political and economic uncertainty remains about whether the terms of the relationship will differ materially from the terms before withdrawal, as well as about the possibility that a so-called "no deal" separation will occur if negotiations are not completed by the end of the transition period.

These developments have created significant uncertainty about the future relationship between the United Kingdom and the EU. Lack of clarity about future U.K. laws and regulations as the United Kingdom determines which EU-derived laws and regulations to replace or replicate as part of a withdrawal, including financial laws and regulations, tax and free trade agreements, intellectual property rights, supply chain logistics, environmental, health and safety laws and regulations, immigration laws and employment laws, could further decrease foreign direct investment in the United Kingdom, increase costs, depress economic activity and restrict our access to capital. These developments, or the perception that any of them could occur, have had and may continue to have a significant adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. Any of these factors could have a significant adverse effect on our business, financial condition, results of operations and prospects.

Further, the United Kingdom's withdrawal from the EU has resulted in the relocation of the EMA from the United Kingdom to the Netherlands. This relocation has caused, and may continue to cause, disruption in the administrative and medical scientific links between the EMA and the U.K. Medicines and Healthcare products Regulatory Agency, including delays in granting clinical trial authorization or marketing authorization, disruption of importation and export of active substance and other components of new drug formulations, and disruption of the supply chain for clinical trial product and final authorized formulations. The cumulative effects of the disruption to the regulatory framework may add considerably to the development lead time to marketing authorization and commercialization of products in the EU and/or the United Kingdom.

The COVID-19 pandemic caused by the novel coronavirus has and may continue to adversely impact our business, including our pre-clinical studies and clinical trials, financial condition and results of operations.

In December 2019, a strain of novel coronavirus causing the COVID-19 disease was reported to have surfaced in Wuhan, China. Since then, COVID-19 has spread to multiple countries, including the Netherlands and the United States. In March 2020, the World Health Organization (WHO) characterized COVID-19 as a pandemic. To date, the COVID-19 pandemic has interfered with the normal function of businesses worldwide, including in the form of travel restrictions, shelter-in-place orders and quarantines, office and school closures, bans on public gatherings and employees being encouraged or required to work from home pursuant to guidance provided by national, state and local officials including the U.S. Center for Disease Control and Prevention (CDC) and European local health agencies, including the Dutch National Institute for Health and Environment or Het Rijksinstituut voor Volksgezondheid en Milieu (RIVM). For example, most of our employees located in the Netherlands are not able to travel to the U.S., where certain of our collaborators and employees are located, which could have an adverse impact on our ability to conduct our business. Similarly, employees located in the U.S. are not able to travel to the Netherlands under current restrictions. Additionally, on March 18, 2020, we temporarily suspended our laboratory research activities at our facilities in Utrecht, the Netherlands to help secure the safety of the Company's employees and to adhere to government recommendations of social distancing and limited public exposure in connection with the COVID-19 pandemic. We have since re-opened our offices and laboratory in Utrecht maintaining social distancing and imposing other requirements consistent with the guidance provided by the CDC and RIVM.

As a result of the COVID-19 pandemic, certain of our contract research organizations (CROs) and third-party suppliers, as well as collaborators in the U.S. and China that are developing or collaborating with us to develop certain of our pre-clinical antibody candidates have been affected. As a result of such impact, we may face difficulties with and delays in performance of certain chemistry manufacturing and controls and testing of our pre-clinical antibody candidates, including MCLA-129, among other undisclosed pre-clinical candidates associated with our collaborations with Incyte and Simcere, which may delay or prevent their potential clinical development. Additionally, our collaborators, CROs and third-party suppliers may in the future experience closures and labor shortages, which may delay or prevent our development of our pre-clinical antibody candidates, including MCLA-129. Moreover, although our collaborators based in China have resumed operations, we may experience labor shortages associated with these pre-clinical development activities due to the current restrictions on travel globally, which may force us to reduce related workflows until such travel restrictions are lifted. Also, there can be no assurances that the applicable governments will not renew or extend these closures.

With respect to our clinical trials, the COVID-19 pandemic and related precautions have directly or indirectly impacted enrollment, new, planned clinical trial site openings, patient visits, and on-site monitoring of our clinical trials for zenocutuzumab, MCLA-117, MCLA-158 and MCLA-145. Merus has observed a moderate to high impact on clinical trial enrollment and operations as a consequence of the COVID-19 pandemic, particularly at sites in countries not yet open to recruitment, and to a lesser extent in countries where COVID-19 related restrictions have been eased, with adjustments made to allow remote visits for some patient follow-up, and reduced onsite monitoring by the sponsor or CRO. The extent of the impact to our overall clinical development timeline is uncertain at this time and we continue to monitor this impact on a regular basis. As a result of the COVID-19 pandemic, we may experience further disruptions that could severely impact our business, preclinical studies and clinical trials, including:

- delays in receiving approval from local regulatory authorities to initiate our planned clinical trials;
- delays or difficulties in enrolling patients in our clinical trials;
- delays or difficulties in clinical site initiation, including difficulties in recruiting clinical site investigators and clinical site staff;
- diversion of healthcare resources away from the conduct of clinical trials, including the diversion of hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- risk that participants enrolled in our clinical trials will acquire COVID-19 while the clinical trial is ongoing, which could impact the results of the clinical trial, including by increasing the number of observed adverse events;
- interruption of key clinical trial activities, such as clinical trial site patient visits, data monitoring, due to limitations on travel imposed or recommended by national, state or local governments, employers and others or interruption of clinical trial subject visits and study procedures (such as endoscopies that are deemed non-essential), which may impact the integrity of subject data and clinical study endpoints;
- interruption or delays in the operations of the FDA, which may impact approval timelines;
- interruption of, or delays in receiving, supplies of our product candidates from our contract manufacturing organizations due to staffing shortages, production slowdowns, global shipping delays or stoppages and disruptions in delivery systems;
- limitations on employee resources that would otherwise be focused on the conduct of our preclinical studies and clinical trials, including because of sickness of employees or their families or the desire of employees to avoid contact with large groups of people;
- refusal of the FDA to accept data from clinical trials in affected geographies;
- interruption or delays in our collaborations, including with Incyte, Betta Pharma, Simcere, and our license agreements with Ono and our academic collaborators, which may experience laboratory closures causing delays in preclinical, translational and development studies that support our clinical programs;
- impacts from prolonged remote work arrangements, such as increased cybersecurity risks and strains on our business continuity plans; and
- delays or difficulties with equity offerings due to disruptions and uncertainties in the securities market.

In addition, the trading prices for our and other biopharmaceutical companies' stock have been highly volatile as a result of the COVID-19 pandemic. As a result, we may face difficulties raising capital through sales of our common shares and any such sales may be on unfavorable terms. The COVID-19 outbreak continues to rapidly evolve. The extent to which the outbreak further impacts our business, including our preclinical studies and clinical trials, results of operations and financial condition will depend on future developments which are highly uncertain and cannot be predicted with confidence. Such factors include but are not limited to the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, quarantines, shelter-in-place orders and social distancing in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

Risks Related to the Development and Clinical Testing of Our Antibody Candidates

All of our antibody candidates are in pre-clinical or early-stage clinical development. Clinical drug development is a lengthy and expensive process with uncertain timelines and uncertain outcomes. If clinical trials of our antibody candidates, particularly zenocutuzumab, MCLA-158, or MCLA-145, which we are developing with Incyte, are prolonged or delayed, we or any collaborators may be unable to obtain required regulatory approvals, and therefore be unable to commercialize our antibody candidates on a timely basis or at all.

To obtain the requisite regulatory approvals to market and sell any of our antibody candidates, we or any collaborator for such candidates must demonstrate through extensive pre-clinical studies and clinical trials that such candidates are safe and effective in

humans. Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. The results of pre-clinical studies and early-stage clinical trials of our antibody candidates may not be predictive of the results of later-stage clinical trials. Antibody candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through pre-clinical studies and initial clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials. Our future clinical trial results may not be successful.

To date, we have not completed any clinical trials required for the approval of any of our antibody candidates. Although we are conducting ongoing clinical trials for zenocutuzumab, MCLA-158, and MCLA-145, and continuing dose escalation for MCLA-117, and are conducting pre-clinical studies for other antibody candidates, we may experience delays in our ongoing clinical trials and we do not know whether planned clinical trials will begin on time, need to be redesigned, enroll patients on time or be completed on schedule, if at all. Clinical trials can be delayed, suspended, or terminated for a variety of reasons, including the following:

- delays in or failure to reach agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- delays in or failure to recruit suitable patients to participate in a trial;
- delays in establishing the appropriate dose and schedule for antibody candidates in clinical trials;
- the difficulty in identifying the sub-populations that we are trying to treat in a particular trial, which may delay enrollment and reduce the power of a clinical trial to detect statistically significant results;
- lower than anticipated retention rates of patients in clinical trials;
- failure to have patients complete a trial or return for post-treatment follow-up;
- clinical sites deviating from trial protocol or dropping out of a trial;
- investigator-sponsored studies of our product candidates, including expanded access protocols, may identify safety or efficacy concerns associated with our antibody candidates, or otherwise negatively affect patient enrollment in our ongoing and planned clinical trials;
- adding new clinical trial sites;
- safety or tolerability concerns could cause us or our collaborators or regulatory authorities, as applicable, to suspend or terminate a trial if we or our collaborators or regulatory authorities, find that the participants are being exposed to unacceptable health risks;
- failure to observe a meaningful clinical benefit;
- delays in or failure to obtain regulatory approval or authorizations to commence a trial;
- delays in or failure to obtain institutional review board (IRB) approval at each site;
- our third-party research contractors failing to comply with regulatory requirements or applicable law, or to meet their contractual obligations to us in a timely manner, or at all;
- changes in regulatory requirements, policies and guidelines;
- manufacturing sufficient quantities of antibody candidate for use in clinical trials;
- the quality or stability of an antibody candidate falling below acceptable standards;
- changes in the treatment landscape for our target indications that may make our antibody candidates no longer relevant;
- third party actions claiming infringement by our antibody candidates in clinical trials outside of the United States and obtaining injunctions interfering with our progress; and

- business interruptions resulting from geo-political actions, including war and terrorism, or natural disasters including earthquakes, typhoons, floods and fires, epidemics or public health emergencies and U.S. or non-U.S. governmental actions or restrictions related thereto.

In addition, disruptions caused by the COVID-19 pandemic may increase the likelihood that we encounter such difficulties or delays in initiating, enrolling, conducting or completing our planned and ongoing clinical trials. We could encounter delays if a clinical trial is suspended or terminated by us, by the IRBs or Ethics Committees of the institutions in which such trials are being conducted, by the Data Review Committee or Data Safety Monitoring Board for such trial or by the FDA, the Competent Authorities of the EEA Member States (the 27 EU Member States plus Iceland, Liechtenstein and Norway, and the United Kingdom (until the end of the transition period on December 31, 2020 provided for in the Withdrawal Agreement between the EU and the UK) or other regulatory authorities. Such authorities may impose such a suspension or termination due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA, EEA Competent Authorities or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. If we experience delays in the completion of, or termination of, any clinical trial of our antibody candidates, the commercial prospects of our antibody candidates will be harmed, and our ability to generate product revenues from any of these antibody candidates, if approved, will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our antibody candidate development and approval process and jeopardize our ability to commence product sales and generate revenues. Significant clinical trial delays could also allow our competitors to bring products to market before we do or shorten any periods during which we have the exclusive right to commercialize our antibody candidates and impair our ability to commercialize our antibody candidates, if approved, and may harm our business and results of operations.

Any of these occurrences may harm our business, financial condition and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our antibody candidates.

Clinical trials must be conducted in accordance with the FDA, the EU and other applicable regulatory authorities' legal requirements, regulations or guidelines, and are subject to oversight by these governmental agencies and Ethics Committees or IRBs at the medical institutions where the clinical trials are conducted. In addition, clinical trials must be conducted with supplies of our antibody candidates produced under current good manufacturing practice (cGMP) requirements and other regulations. Furthermore, we rely on CROs and clinical trial sites to ensure the proper and timely conduct of our clinical trials and while we have agreements governing their committed activities, we have limited influence over their actual performance. We depend on our collaborators and on medical institutions and CROs to conduct our clinical trials in compliance with good clinical practice (GCP) requirements. To the extent our collaborators or the CROs fail to enroll participants for our clinical trials, fail to conduct the study to GCP standards or are delayed for a significant time in the execution of trials, including achieving full enrollment, we may be affected by increased costs, program delays or both, which may harm our business. In addition, clinical trials that are conducted in countries outside the EU and the United States may subject us to further delays and expenses as a result of increased shipment costs, additional regulatory requirements and the engagement of non-EU and non-U.S. CROs, as well as expose us to risks associated with clinical investigators who are unknown to the FDA or the EMA, and different standards of diagnosis, screening and medical care.

Interim and preliminary “top-line” data from our clinical trials that we announce or publish from time to time may change as more patient data become available and are subject to audit and verification procedures that could result in material changes in the final data.

From time to time, we may publish interim or preliminary “top-line” data from our clinical trials. Interim data from clinical trials that we may complete are subject to the risk that one or more of the clinical outcomes may materially change as patient enrollment continues and more patient data become available. Preliminary data also remain subject to audit and verification procedures that may result in the final data being materially different from the preliminary data previously published. In addition, we may report interim or preliminary analyses of only certain endpoints rather than all endpoints. Furthermore, the information we choose to publicly disclose regarding a particular study or clinical trial is based on more extensive information, and others may not agree with what we determine is the material or otherwise appropriate information to disclose. Any information we determine not to disclose may ultimately be deemed significant with respect to future decisions, conclusions, views, activities, or otherwise regarding a particular antibody candidate or our business. Others, including regulatory agencies, may not accept or agree with our assumptions, estimates, calculations, conclusions, or analyses or may interpret or weigh the importance of data differently, which could impact the value of particular programs, the approvability or commercialization of the particular antibody candidates, and our business in general. As a result, interim and preliminary data and analyses should be viewed with caution. Adverse differences between preliminary or interim data and final data or changes in what is material information regarding the results from a particular study or clinical trial could significantly harm our clinical development and business prospects and cause volatility in the price of our common shares.

Our antibody candidates may have serious adverse, undesirable or unacceptable side effects which may delay or prevent marketing approval. If such side effects are identified during the development of our antibody candidates or following approval, if any, we may need to abandon our development of such antibody candidates, the commercial profile of any approved label may be limited, or we may be subject to other significant negative consequences following marketing approval, if any.

Undesirable side effects that may be caused by our antibody candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA, the EMA or other comparable foreign authorities. In February 2015, we commenced a Phase 1/2 clinical trial in Europe of our most advanced antibody candidate, zenocutuzumab, for the treatment of various solid tumors, which was amended to treat patients having solid tumors harboring a NRG1 gene fusion. Additionally, in January 2018 we commenced a Phase 2 clinical trial in Europe and the United States exploring zenocutuzumab, in combination with other agents, in patients with metastatic breast cancer. To date, patients treated with zenocutuzumab have experienced adverse reactions that may be related to the treatment, including infusion-related reactions, diarrhea, vomiting, fatigue, skin rash, sore mouth and shortness of breath. In May 2016, we commenced a Phase 1 clinical trial in Europe of our bispecific antibody MCLA-117. To date, patients treated with MCLA-117 have experienced adverse reactions that may be related to the treatment, most commonly infusion-related reactions including fever, cytokine release syndrome and chills. In May 2018 we commenced a Phase 1 clinical trial in Europe of our bispecific antibody MCLA-158 in patients with solid tumors. To date, patients treated with MCLA-158 have experienced adverse reactions that may be related to the treatment, most commonly infusion-related reactions and skin rash associated with mAb EGFR inhibitors. In May 2019, we commenced a Phase 1 clinical trial in the United States of our bispecific antibody MCLA-145 developed in collaboration with Incyte. To date, patients treated with MCLA-145 have experienced adverse events irrespective of causality including blood alkaline phosphatase increase, anemia, and hypoalbuminemia, lymphocyte count decrease, and white blood cell count decrease. Febrile neutropenia was the serious treatment emergent adverse event or TEAE that was assessed as related to MCLA-145 by an investigator.

Results of our trials could reveal a high and unacceptable severity and prevalence of these or other side effects. In such an event, our trials could be suspended or terminated and the FDA, the EMA, EEA Competent Authorities, or comparable foreign regulatory authorities could order us to cease further development of or deny approval of our antibody candidates for any or all targeted indications. The drug-related side effects could affect patient recruitment or the ability of enrolled patients to complete the trial or result in potential product liability claims. Any of these occurrences may harm our business, financial condition and prospects significantly. Additionally, if any of our antibody candidates receives marketing approval and we or others later identify undesirable or unacceptable side effects caused by such products, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of such products and require us to take our approved product off the market;
- regulatory authorities may require the addition of labeling statements, specific warnings, a contraindication or field alerts to physicians and pharmacies;
- regulatory authorities may require a medication guide outlining the risks of such side effects for distribution to patients, or that we implement a risk evaluation and mitigation strategy plan to ensure that the benefits of the product outweigh its risks;
- we may be required to change the dose or the way the product is administered, conduct additional clinical trials or change the labeling of the product;
- we may be subject to limitations on how we may promote the product;
- sales of the product may decrease significantly;
- we may be subject to litigation or product liability claims; and
- our reputation may suffer.

Any of these events could prevent us, our collaborators or our potential future partners from achieving or maintaining market acceptance of the affected antibody candidate, if approved, or could substantially increase commercialization costs and expenses, which in turn could delay or prevent us from generating significant revenue from the sale of our antibody candidates, if approved.

Adverse events in the field of oncology could damage public perception of our antibody candidates and negatively affect our business.

The commercial success of our products, if any, will depend in part on public acceptance of the use of cancer immunotherapies. Adverse events in clinical trials of our antibody candidates or in clinical trials of others developing similar products and the resulting publicity, as well as any other adverse events in the field of oncology that may occur in the future, could result in a decrease in demand for any products that we may develop.

Future adverse events in oncology or the biopharmaceutical industry could also result in greater governmental regulation, stricter labeling requirements and potential regulatory delays in the testing or approvals of our antibody candidates. Any increased scrutiny could delay or increase the costs of obtaining regulatory approval for our antibody candidates.

We depend on enrollment of patients in our clinical trials for our antibody candidates. If we are unable to enroll patients in our clinical trials, our research and development efforts and business, financial condition and results of operations could be materially adversely affected.

Successful and timely completion of clinical trials will require that we enroll a sufficient number of patient candidates. For our Phase 1/2 clinical trial of zenocutuzumab in solid tumors, we are enrolling up to 90 patients with tumors harboring NRG1 gene fusions. Solid tumors with NRG1 gene fusions occur infrequently, which could result in slow enrollment of clinical trial participants. In the Phase 1 clinical trial of MCLA-117, we announced in May 2020 we will not continue enrollment into the planned dose expansion cohorts in the trial. In the Phase 1 clinical trial of MCLA-158, we plan to enroll approximately 120 adult patients with solid tumors. In the Phase 1 clinical trial of MCLA-145, we plan to enroll approximately 118 adult patients with solid tumors or B-cell lymphoma. These trials and other trials we conduct may be subject to delays as a result of patient enrollment taking longer than anticipated or patient withdrawal.

Our clinical trials will also compete with other clinical trials for antibody candidates that are in the same therapeutic areas as our antibody candidates, and this competition will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Because the number of qualified clinical investigators and clinical trial sites is limited, we expect to conduct some of our clinical trials at the same clinical trial sites that some of our competitors use, which will reduce the number of patients who are available for our clinical trials at such clinical trial sites.

Patient enrollment depends on many factors, including the size and nature of the patient population, eligibility criteria for the trial, the proximity of patients to clinical sites, the design of the clinical protocol, the availability of competing clinical trials, the availability of new drugs approved for the indication the clinical trial is investigating, and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies. These factors may make it difficult for us to enroll enough patients to complete our clinical trials in a timely and cost-effective manner. Delays in the completion of any clinical trial of our antibody candidates will increase our costs, slow down our antibody candidate development and approval process, delay or potentially jeopardize our ability to commence product sales and generate revenue and harm our reputation and ability to obtain financing. In addition, some of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our antibody candidates.

We may become exposed to costly and damaging liability claims, either when testing our antibody candidates in the clinic or at the commercial stage; and our product liability insurance may not cover all damages from such claims.

We are exposed to potential product liability and professional indemnity risks that are inherent in the research, development, manufacturing, marketing and use of pharmaceutical products. Currently, we have no products that have been approved for commercial sale; however, the current and future use of antibody candidates by us and our collaborators in clinical trials, and the sale of any approved products in the future, may expose us to liability claims. These claims might be made by patients that use the product, healthcare providers, pharmaceutical companies, our collaborators or others selling such products. Any claims against us, regardless of their merit, could be difficult and costly to defend and could materially adversely affect the market for our antibody candidates or any prospects for commercialization of our antibody candidates, if approved.

Although the clinical trial process is designed to identify and assess potential side effects, it is always possible that a drug, even after regulatory approval, may exhibit unforeseen side effects. If any of our antibody candidates were to cause adverse side effects during clinical trials or after approval of the antibody candidate, we may be exposed to substantial liabilities. Physicians and patients may not comply with any warnings that identify known potential adverse effects and patients who should not use our antibody candidates.

Although we maintain adequate product liability insurance for our antibody candidates, it is possible that our liabilities could exceed our insurance coverage. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for any of our antibody candidates. However, we may not be able to maintain insurance coverage at a reasonable cost or obtain insurance coverage that will be adequate to satisfy any liability that may arise. If a successful product liability claim or series of claims is brought against us for uninsured liabilities or in excess of insured liabilities, our assets may not be sufficient to cover such claims and our business operations could be impaired.

Should any of the events described above occur, this could have a material adverse effect on our business, financial condition and results of operations.

The regulatory approval processes of the FDA, the EMA and comparable foreign authorities are lengthy, time consuming and inherently unpredictable, and if we are ultimately unable to obtain regulatory approval for our antibody candidates, our business will be substantially harmed.

The time required to obtain approval by the FDA, the EMA and comparable foreign authorities is unpredictable but typically takes many years following the commencement of clinical trials and depends upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval may change during the course of an antibody candidate's clinical development and may vary among jurisdictions. We have not obtained regulatory approval for any antibody candidate and it is possible that none of our existing antibody candidates or any antibody candidates we may seek to develop in the future will ever obtain regulatory approval.

Our antibody candidates could fail to receive regulatory approval for many reasons, including the following:

- the FDA, the EMA or comparable foreign regulatory authorities may disagree with the design or implementation of our clinical trials;
- we may be unable to demonstrate to the satisfaction of the FDA, the EMA or comparable foreign regulatory authorities that an antibody candidate is safe and effective for its proposed indication;
- we may be unable to demonstrate that an antibody candidate's clinical and other benefits outweigh its safety risks;
- the FDA, the EMA or comparable foreign regulatory authorities may disagree with our interpretation of data from pre-clinical studies or clinical trials;
- the data collected from clinical trials of our antibody candidates may not be sufficient to support the submission of a BLA or other submission or to obtain regulatory approval in the United States, the EU or elsewhere;
- the FDA, the EMA or comparable foreign regulatory authorities may fail to approve the manufacturing processes or facilities of third-party manufacturers with which we contract for clinical and commercial supplies;
- the FDA, the EMA or comparable foreign regulatory authorities may fail to approve the companion diagnostics we contemplate developing with collaborators; and
- the approval policies or regulations of the FDA, the EMA or comparable foreign regulatory authorities may significantly change in a manner rendering our clinical data insufficient for approval.

This lengthy approval process as well as the unpredictability of future clinical trial results may result in our failing to obtain regulatory approval to market any of our antibody candidates, which would significantly harm our business, results of operations and prospects. The FDA, the EMA and other regulatory authorities have substantial discretion in the approval process, and determining when or whether regulatory approval will be obtained for any of our antibody candidates. Even if we believe the data collected from clinical trials of our antibody candidates are promising, such data may not be sufficient to support approval by the FDA, the EMA or any other regulatory authority.

In addition, even if we were to obtain approval, regulatory authorities may approve any of our antibody candidates for fewer or more limited indications than we request, may not approve the price we intend to charge for our products, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve an antibody candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that antibody candidate. Any of the foregoing scenarios could materially harm the commercial prospects for our antibody candidates.

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

If the FDA, the EMA or a comparable foreign regulatory authority approves any of our antibody candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMPs and GCPs for any clinical trials that we conduct post-approval, all of which may result in significant expense and limit our ability to commercialize such products. In addition, any regulatory approvals that we receive for our antibody candidates may also be subject to limitations on the approved indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the antibody candidate.

If there are changes in the application of legislation or regulatory policies, or if problems are discovered with a product or our manufacture of a product, or if we or one of our distributors, licensees or co-marketers fails to comply with regulatory requirements, the regulators could take various actions. These include imposing fines on us, imposing restrictions on the product or its manufacture and requiring us to recall or remove the product from the market. The regulators could also suspend or withdraw our marketing authorizations, requiring us to conduct additional clinical trials, change our product labeling or submit additional applications for marketing authorization. If any of these events occurs, our ability to sell such product may be impaired, and we may incur substantial additional expense to comply with regulatory requirements, which could materially adversely affect our business, financial condition and results of operations.

We may not be successful in our efforts to use and expand our Biclomics® technology platform to build a pipeline of antibody candidates or to use our Triclomics™ technology platform to build a pipeline of trispecific antibody candidates.

A key element of our strategy is to use and expand our Biclomics® technology platform to build a pipeline of antibody candidates and progress these antibody candidates through clinical development for the treatment of a variety of different types of diseases. Although our research and development efforts to date have resulted in a pipeline of antibody candidates directed at various cancers, we may not be able to develop antibody candidates that are safe and effective.

Another important element of our strategy is to develop, use and exploit our Triclomics™ technology platform to build a pipeline of trispecific antibody candidates and collaborate with third parties in potentially researching and developing these trispecific antibody candidates through pre-clinical and clinical development for the treatment of a variety of different types of diseases. Although our research and development efforts to date have resulted in proof of concept pre-clinical candidates, we may not be able to develop or monetize these trispecific antibody candidates or demonstrate in the clinic that they are safe and effective. Even if we are successful in continuing to build our bispecific and trispecific pipelines, the potential antibody candidates that we identify may not be suitable for clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. If we do not continue to successfully develop and begin to commercialize our bispecific antibody candidates or if we do not successfully develop, collaborate, license or begin to commercialize our trispecific antibody candidates, we will face difficulty in obtaining product revenues in future periods, which could result in significant harm to our financial position and adversely affect our share price.

Even if we obtain marketing approval of any of our antibody candidates in a major pharmaceutical market such as the United States or the EU, we may never obtain approval or commercialize our products in other major markets, which would limit our ability to realize their full market potential.

In order to market any products in a country or territory, we must establish and comply with numerous and varying regulatory requirements of such countries or territories regarding safety and efficacy. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking regulatory approvals in all major markets could result in significant delays, difficulties and costs for us and may require additional pre-clinical studies or clinical trials which would be costly and time consuming. Regulatory requirements can vary widely from country to country and could delay or prevent the introduction of our products in those countries. Satisfying these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. In addition, our failure to obtain regulatory approval in any country may delay or have negative effects on the process for regulatory approval in other countries. We currently do not have any antibody candidates approved for sale in any jurisdiction, whether in the Netherlands, the United States or any other international markets, and we do not have experience in obtaining regulatory approval in international markets. If we fail to comply with regulatory requirements in international markets or to obtain and maintain required approvals, our target market will be reduced and our ability to realize the full market potential of our products, if any, will be harmed.

Due to our limited resources and access to capital, we must, and have in the past decided to, prioritize development of certain antibody candidates over other potential candidates. These decisions may prove to have been wrong and may adversely affect our revenues.

Because we have limited resources and access to capital to fund our operations, we must decide which antibody candidates to pursue and the amount of resources to allocate to each. Our decisions concerning the allocation of research, collaboration, management and financial resources toward particular compounds, antibody candidates or therapeutic areas may not lead to the development of viable commercial products and may divert resources away from better opportunities. Similarly, our decisions to delay, terminate or collaborate with third parties in respect of certain antibody development programs may also prove not to be optimal and could cause us to miss valuable opportunities. If we make incorrect determinations regarding the market potential of our antibody candidates or misread trends in the biopharmaceutical industry, in particular for our lead antibody candidates, our business, financial condition and results of operations could be materially adversely affected.

Because we are subject to environmental, health and safety laws and regulations, we may become exposed to liability and substantial expenses in connection with environmental compliance or remediation activities which may adversely affect our business and financial condition.

Our operations, including our research, development, testing and manufacturing activities, are subject to numerous environmental, health and safety laws and regulations. These laws and regulations govern, among other things, the importation, storage, controlled use, handling, release and disposal of, and the maintenance of a registry for, hazardous materials and biological materials, such as chemical solvents, human cells, animal byproducts, genetically modified organisms, carcinogenic compounds, mutagenic compounds and compounds that have a toxic effect on reproduction, laboratory procedures and exposure to blood-borne pathogens. If we fail to comply with such laws and regulations, we could be subject to fines or other sanctions.

As with other companies engaged in activities similar to ours, we face a risk of environmental liability inherent in our current and historical activities, including liability relating to releases of or exposure to hazardous or biological materials. Environmental, health and safety laws and regulations are becoming more stringent. We may be required to incur substantial expenses in connection with future environmental compliance or remediation activities, in which case, our production and development efforts may be interrupted or delayed and our financial condition and results of operations may be materially adversely affected.

Our employees, independent contractors, principal investigators, CROs, consultants, vendors and collaborators may engage in misconduct or other improper activities, including noncompliance with applicable law, regulatory standards and requirements, which could have a material adverse effect on our business.

We are exposed to the risk that our employees, independent contractors, principal investigators, CROs, consultants, vendors and collaborators may engage in fraudulent conduct or other illegal activities. Misconduct by these parties could include intentional, reckless and/or negligent conduct or unauthorized activities that violate: (i) the regulations of the FDA, the EMA and other regulatory authorities, including those laws that require the reporting of true, complete and accurate information to such authorities; (ii) manufacturing standards; (iii) federal and state data privacy, security, fraud and abuse and other healthcare laws and regulations in the United States and abroad; or (iv) laws that require the reporting of true, complete and accurate financial information and data. Specifically, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Activities subject to these laws could also involve the improper use or misrepresentation of information obtained in the course of clinical trials or creating fraudulent data in our pre-clinical studies or clinical trials, which could result in regulatory sanctions and cause serious harm to our reputation. It is not always possible to identify and deter misconduct by employees and other third parties, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with such laws or regulations. Additionally, we are subject to the risk that a person or government could allege such fraud or other misconduct, even if none occurred. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business and results of operations, including the imposition of significant civil, criminal and administrative penalties, damages, monetary fines, disgorgements, possible exclusion from participation in Medicare, Medicaid and other U.S. federal healthcare programs, individual imprisonment, other sanctions, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

Our research and development activities could be affected or delayed as a result of possible restrictions on animal testing.

Certain laws and regulations require us to test our antibody candidates on animals before initiating clinical trials involving humans. Animal testing activities have been the subject of controversy and adverse publicity. Animal rights groups and other organizations and individuals have attempted to stop animal testing activities by pressing for legislation and regulation in these areas and by disrupting these activities through protests and other means. To the extent the activities of these groups are successful, our research and development activities may be interrupted, delayed or become more expensive.

Risks Related to Regulatory Approval of Our Antibody Candidates

Enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our antibody candidates and may affect the prices we may set. The successful commercialization of our antibody candidates will depend in part on the extent to which governmental authorities and health insurers establish adequate coverage and reimbursement levels and pricing policies.

In the United States, the EU, and other foreign jurisdictions, there have been, and we expect there will continue to be, a number of legislative and regulatory changes and proposed changes to the healthcare system that could affect our future results of operations. In particular, there have been and continue to be a number of initiatives at the United States federal and state levels that seek to reduce healthcare costs and improve the quality of healthcare. For example, in March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively the ACA) was enacted, which substantially changed the way healthcare is financed by both governmental and private insurers. Among the provisions of the ACA, those of greatest importance to the pharmaceutical and biotechnology industries include the following:

- an annual, non-deductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, which is apportioned among these entities according to their market share in certain government healthcare programs;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13.0% of the average manufacturer price for branded and generic drugs, respectively;
- a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted or injected;
- extension of a manufacturer's Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to certain individuals with income at or below 133% of the federal poverty level, thereby potentially increasing a manufacturer's Medicaid rebate liability;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research; and
- establishment of a Center for Medicare Innovation at the Centers for Medicare & Medicaid Services (CMS) to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending.

Since its enactment, there have been judicial and Congressional challenges to certain aspects of the ACA, as well as efforts by the current presidential administration to modify, repeal, or otherwise invalidate all, or certain provisions of, the ACA. For example, the Tax Cuts and Jobs Act of 2017 (TCJA), includes a provision repealing the tax-based shared responsibility payment imposed by the ACA on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate." On December 14, 2018, a U.S. District Court Judge in the Northern District of Texas, ruled that the individual mandate is a critical and inseparable feature of the ACA, and therefore, because it was repealed as part of the TCJA, the remaining provisions of the ACA are invalid as well. On December 18, 2019, the U.S. Court of Appeals for the 5th Circuit upheld the District Court's decision that the individual mandate was unconstitutional but remanded the case back to the District Court to determine whether the remaining provisions of the ACA are invalid as well. It is unclear how these decisions, subsequent appeals, and other efforts to challenge, repeal, or replace the ACA will impact the ACA or our business.

In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted. For example, the Budget Control Act of 2011 resulted in aggregate reductions of Medicare payments to providers of 2% per fiscal year. These reductions went into effect on April 1, 2013 and, due to subsequent legislative amendments to the statute will remain in effect through 2029 unless additional Congressional action is taken. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, further reduced Medicare payments to several types of providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other health care funding, which could have a material adverse effect on our future customers and accordingly, our financial operations.

Moreover, payment methodologies, including payment for companion diagnostics, may be subject to changes in healthcare legislation and regulatory initiatives. For example, CMS began bundling the Medicare payments for certain laboratory tests ordered while a patient received services in a hospital outpatient setting and, beginning in 2018, CMS began paying for clinical laboratory services based on a weighted average of reported prices that private payors, Medicare Advantage plans, and Medicaid Managed Care plans pay for laboratory services. In addition, recently there has been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed and enacted legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drug products. For example, the 21st Century Cures Act changed the reimbursement methodology for infusion drugs and biologics furnished through durable medical equipment in an attempt to remedy over- and underpayment of certain products. We expect that additional U.S. federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that the U.S. federal government will pay for healthcare products and services, which could result in reduced demand for our antibody candidates or additional pricing pressures.

Individual states in the United States have also become increasingly active in passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. Legally mandated price controls on payment amounts by third-party payors or other restrictions could harm our business, results of operations, financial condition and prospects. In addition, regional healthcare authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other healthcare programs. This could reduce the ultimate demand for any future products or put pressure on our product pricing, which could negatively affect our business, results of operations, financial condition and prospects.

In the EU, similar political, economic and regulatory developments may affect our ability to profitably commercialize any future products. In addition to continuing pressure on prices and cost containment measures, legislative developments at the EU or member state level may result in significant additional requirements or obstacles that may increase our operating costs. The delivery of healthcare in the EU, including the establishment and operation of health services and the pricing and reimbursement of medicines, is almost exclusively a matter for national, rather than EU, law and policy. National governments and health service providers have different priorities and approaches to the delivery of health care and the pricing and reimbursement of products in that context. In general, however, the healthcare budgetary constraints in most EU member states have resulted in restrictions on the pricing and reimbursement of medicines by relevant health service providers. Coupled with ever-increasing EU and national regulatory burdens on those wishing to develop and market products, this could prevent or delay marketing approval of our antibody candidates, restrict or regulate post-approval activities and affect our ability to commercialize any products for which we obtain marketing approval. In international markets, reimbursement and healthcare payment systems vary significantly by country, and many countries have instituted price ceilings on specific products and therapies.

We cannot predict how the policies of changing political administrations could impact, impose significant burdens on, or otherwise materially delay, the FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. For example, certain policies of the current presidential administration may impact our business and industry. Namely, the current presidential administration has taken several executive actions, including the issuance of a number of Executive Orders. It is difficult to predict how these requirements will be implemented, and the extent to which they will impact the FDA's ability to exercise its regulatory authority. If these executive actions impose constraints on the FDA's ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

Finally, policies of the individual government agencies, including the FDA or similar regulatory authorities, may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. If we or our collaborators are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we or our collaborators are not able to maintain regulatory compliance, our antibody candidates may lose any regulatory approval that may have been obtained and we may not achieve or sustain profitability, which would adversely affect our business.

Disruptions at the FDA and other government agencies caused by funding shortages or global health concerns could hinder their ability to hire, retain or deploy key leadership and other personnel, or otherwise prevent new or modified products from being developed, approved or commercialized in a timely manner or at all, which could negatively impact our business.

The ability of the FDA to review and or approve new products can be affected by a variety of factors, including government budget and funding levels, statutory, regulatory, and policy changes, the FDA's ability to hire and retain key personnel and accept the payment of user fees, and other events that may otherwise affect the FDA's ability to perform routine functions. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of other government agencies that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable. Disruptions at the FDA and other agencies may also slow the time necessary for new drugs and biologics to be reviewed and/or approved by necessary government agencies, which would adversely affect our business. For example, over the last several years, including for 35 days

beginning on December 22, 2018, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA, have had to furlough critical FDA employees and stop critical activities.

Separately, in response to the global pandemic of COVID-19, on March 10, 2020 the FDA announced its intention to postpone most foreign inspections of manufacturing facilities and products through April 2020, and subsequently, on March 18, 2020, the FDA temporarily postponed routine surveillance inspections of domestic manufacturing facilities. Subsequently, on July 10, 2020 the FDA announced its intention to resume certain on-site inspections of domestic manufacturing facilities subject to a risk-based prioritization system. The FDA intends to use this risk-based assessment system to identify the categories of regulatory activity that can occur within a given geographic area, ranging from mission critical inspections to resumption of all regulatory activities. Regulatory authorities outside the United States may adopt similar restrictions or other policy measures in response to the COVID-19 pandemic. If a prolonged government shutdown occurs, or if global health concerns continue to prevent the FDA or other regulatory authorities from conducting their regular inspections, reviews, or other regulatory activities, it could significantly impact the ability of the FDA or other regulatory authorities to timely review and process our regulatory submissions, which could have a material adverse effect on our business.

We may be subject to healthcare laws, regulation and enforcement; our failure to comply with these laws could harm our results of operations and financial conditions.

Although we do not currently have any products on the market, if we obtain FDA approval for any of our antibody candidates and begin commercializing those products in the United States, our operations may be directly, or indirectly through our customers and third-party payors, subject to various U.S. federal and state healthcare laws and regulations, including, without limitation, the U.S. federal Anti-Kickback Statute. Healthcare providers, physicians and others play a primary role in the recommendation and prescription of any products for which we obtain marketing approval. These laws may impact, among other things, our proposed sales, marketing and education programs and constrain our financial arrangements and relationships with healthcare providers, physicians and other parties through which we market, sell and distribute our products for which we obtain marketing approval. In addition, we may be subject to patient data privacy and security regulation by both the U.S. federal government and the states in which we conduct our business. Finally, we may be subject to additional healthcare, statutory and regulatory requirements and enforcement by foreign regulatory authorities in jurisdictions in which we conduct our business. The laws that may affect our ability to operate include:

- the U.S. federal Anti-Kickback Statute, which prohibits, among other things, persons or entities from knowingly and willfully soliciting, offering, receiving or paying any remuneration (including any kickback, bribe, or certain rebate), directly or indirectly, overtly or covertly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service, for which payment may be made, in whole or in part, under U.S. federal and state healthcare programs such as Medicare and Medicaid; a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;
- the U.S. federal false claims and civil monetary penalties laws, including the civil False Claims Act, which, among other things, impose criminal and civil penalties, including through civil whistleblower or qui tam actions, against individuals or entities for, among other things, knowingly presenting, or causing to be presented, to the U.S. federal government, claims for payment or approval that are false or fraudulent, knowingly making, using or causing to be made or used, a false record or statement material to a false or fraudulent claim, or from knowingly making a false statement to avoid, decrease or conceal an obligation to pay money to the U.S. federal government. In addition, the government may assert that a claim including items and services resulting from a violation of the U.S. federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act;
- the U.S. federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) which imposes criminal and civil liability for, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, or knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement, in connection with the delivery of, or payment for, healthcare benefits, items or services; similar to the U.S. federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;
- the U.S. federal Food, Drug and Cosmetic Act (FDCA) which prohibits, among other things, the adulteration or misbranding of drugs, biologics and medical devices;
- the U.S. federal legislation commonly referred to as Physician Payments Sunshine Act, enacted as part of the ACA, and its implementing regulations, which requires certain manufacturers of drugs, devices, biologics and medical supplies that are reimbursable under Medicare, Medicaid, or the Children's Health Insurance Program to report annually to the CMS information related to certain payments and other transfers of value to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors), certain other health care professionals beginning in 2022, and teaching hospitals, as well as ownership and investment interests held by the physicians described above and their immediate family members;
- analogous state laws and regulations, including: state anti-kickback and false claims laws, which may apply to our business practices, including but not limited to, research, distribution, sales and marketing arrangements and claims involving healthcare items or services reimbursed by any third-party payor, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the U.S. federal government, or otherwise restrict payments that may be made to

healthcare providers and other potential referral sources; and state laws and regulations that require drug manufacturers to file reports relating to pricing and marketing information, and that require the tracking and reporting of gifts and other remuneration and items of value provided to healthcare professionals and entities; and

- European and other foreign law equivalents of each of the laws, including reporting requirements detailing interactions with and payments to healthcare providers.

Ensuring that our internal operations and future business arrangements with third parties comply with applicable healthcare laws and regulations could involve substantial costs. It is possible that governmental authorities will conclude that our business practices do not comply with current or future statutes, regulations, agency guidance or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of the laws described above or any other governmental laws and regulations that may apply to us, we may be subject to significant penalties, including civil, criminal and administrative penalties, damages, fines, exclusion from U.S. government funded healthcare programs, such as Medicare and Medicaid, disgorgement, individual imprisonment, contractual damages, reputational harm, diminished profits, reporting obligations and oversight if we become subject to a corporate integrity agreement or other agreement, and the curtailment or restructuring of our operations. If any of the physicians or other providers or entities with whom we expect to do business is found not to be in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs and imprisonment. If any of the above occur, it could adversely affect our ability to operate our business and our results of operations. Further, defending against any such actions can be costly, time-consuming and may require significant personnel resources. Therefore, even if we are successful in defending against any such actions that may be brought against us, our business may be impaired.

We face potential liability related to the privacy of health information we obtain from clinical trials sponsored by us or our collaborators, from research institutions, and directly from individuals.

Most health care providers, including research institutions from which we or our collaborators obtain patient health information, are subject to privacy and security regulations promulgated under HIPAA, as amended by HITECH. Any person may be prosecuted under HIPAA's criminal provisions either directly or under aiding-and-abetting or conspiracy principles. Consequently, depending on the facts and circumstances, we could face substantial criminal penalties if we knowingly receive individually identifiable health information from a HIPAA-covered health care provider or research institution that has not satisfied HIPAA's requirements for disclosure of individually identifiable health information.

In addition, we may maintain sensitive personally identifiable information, including health information, that we receive throughout the clinical trial process, in the course of our research collaborations, and directly from individuals (or their healthcare providers) who enroll in our patient assistance programs. Even when HIPAA does not apply, according to the Federal Trade Commission (FTC), failing to take appropriate steps to keep consumers' personal information secure constitutes unfair acts or practices in or affecting commerce in violation of Section 5(a) of the Federal Trade Commission Act. The FTC expects a company's data security measures to be reasonable and appropriate in light of the sensitivity and volume of consumer information it holds, the size and complexity of its business, and the cost of available tools to improve security and reduce vulnerabilities. Individually identifiable health information is considered sensitive data that merits stronger safeguards. The FTC's guidance for appropriately securing consumers' personal information is similar to what is required by the HIPAA Security Rule. As such, we, our collaborators, research institutions, health care providers and other entities that provide personally identifiable information to us may be subject to state information security laws, and state laws requiring notification of affected individuals and state regulators in the event of a breach of personal information, which is a broader class of information than the health information protected by HIPAA.

The United States and global data protection landscape is rapidly evolving, and we may be affected by or subject to new or amended laws and regulations in the future. For example, California recently enacted legislation, the California Consumer Privacy Act (CCPA) which went into effect January 1, 2020. The CCPA, among other things, creates new data privacy obligations for covered companies and provides new privacy rights to California residents, including the right to opt out of certain disclosures of their information. The CCPA also creates a private right of action with statutory damages for certain data breaches, thereby potentially increasing risks associated with a data breach. Although the law includes limited exceptions, including for "protected health information" maintained by a covered entity or business associate, it may regulate or impact our processing of personal information depending on the context.

Our and our collaborators' clinical trial programs and research collaborations outside the U.S. may implicate international data protection laws, including, in Europe, the GDPR and local laws further implementing or supplementing the GDPR. The GDPR implements more stringent operational requirements for processors and controllers of personal data including requirements for such companies to be able to ensure and be able to demonstrate compliance with the GDPR. If our or our collaborators' privacy or data security measures fail to comply with the GDPR requirements, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data and/or fines of up to €20 million or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher. In addition to statutory enforcement, a non-compliance can lead to compensation claims by affected individuals, negative publicity and a potential loss of business.

We are also subject to EU laws on personal data export, as we may transfer personal data from the EU to other jurisdictions which are not considered by the European Commission to offer "adequate" protection of personal data. Such transfers need to be legitimized by a valid transfer mechanism under the GDPR. In addition, the U.S. Privacy Shield is under periodic review by the European Commission. As such, there remains ongoing uncertainty that the Privacy Shield framework and/or model clauses may be invalidated

in the future. Further, the United Kingdom's decision to leave the EU has created uncertainty with regard to the status of the UK as an "adequate country" for the purposes of data transfers outside the European Economic Area. In particular, it is unclear how data transfers to and from the UK will be regulated. These changes could require us to make operational changes and could increase costs and may lead to governmental enforcement actions, litigation, fines and penalties or adverse publicity that could have an adverse effect on our business.

Although we work to comply with applicable laws, regulations and standards, our contractual obligations and other legal obligations, these requirements are evolving and may be modified, interpreted and applied in an inconsistent manner among jurisdictions in which we operate. We are likely to be required to expend significant capital and other resources to ensure ongoing compliance with applicable privacy and data security laws both inside and outside the United States. Claims that we have violated individuals' privacy rights or breached our contractual obligations regardless of merit and even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

Claims that we or any collaborators fail to comply with applicable federal, state, or local, legal or regulatory requirements, could subject us to a range of regulatory actions that could affect our or any collaborators' ability to seek to commercialize our antibody candidates, if approved. Any threatened or actual government enforcement action could also generate adverse publicity and require that we devote substantial resources that could otherwise be used in other aspects of our business.

Risks Related to Commercialization of Our Antibody Candidates

We operate in highly competitive and rapidly changing industries, which may result in others discovering, developing or commercializing competing products before or more successfully than we do.

The biopharmaceutical and pharmaceutical industries are highly competitive and subject to significant and rapid technological change. Our success is highly dependent on our ability to discover, develop and obtain marketing approval for new and innovative products on a cost-effective basis and to market them successfully. In doing so, we face and will continue to face intense competition from a variety of businesses, including large, fully integrated pharmaceutical companies, specialty pharmaceutical companies and biopharmaceutical companies, academic institutions, government agencies and other private and public research institutions in Europe, the United States and other jurisdictions. These organizations may have significantly greater resources than we do and conduct similar research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and marketing of products that compete with our antibody candidates.

With the proliferation of new drugs and therapies into oncology, we expect to face increasingly intense competition as new technologies become available. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Any antibody candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future. The highly competitive nature of and rapid technological changes in the biotechnology and pharmaceutical industries could render our antibody candidates or our technology obsolete, less competitive or uneconomical. Our competitors may, among other things:

- have significantly greater financial, manufacturing, marketing, drug development, technical and human resources than we do;
- develop and commercialize products that are safer, more effective, less expensive, more convenient or easier to administer, or have fewer or less severe side effects;
- obtain quicker regulatory approval;
- establish superior proprietary positions covering our products and technologies;
- implement more effective approaches to sales and marketing; or
- form more advantageous strategic alliances.

Should any of these factors occur, our business, financial condition and results of operations could be materially adversely affected.

In addition, existing and future collaborators may decide to market and sell products that compete with the antibody candidates that we have agreed to license to them. While we have agreements governing their committed activities, we have limited influence over their actual performance, and any competition by our collaborators could also have a material adverse effect on our future business, financial condition and results of operations.

Smaller and other early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, retaining manufacturers to produce clinical trial materials, as well as in acquiring technologies complementary to, or necessary for, our programs.

If we fail to obtain orphan drug designation or obtain or maintain orphan drug exclusivity for our products, or lose such designation for zenocutuzumab in the United States, our competitors may sell products to treat the same conditions and our revenue will be reduced.

Under the Orphan Drug Act, the FDA may designate a product as an orphan drug if it is intended to treat a rare disease or condition, defined as a patient population of fewer than 200,000 in the United States, or a patient population greater than 200,000 in the United States where there is no reasonable expectation that the cost of developing the drug will be recovered from sales in the United States. In the EU, the EMA's Committee for Orphan Medicinal Products grants orphan drug designation to promote the development of products that are intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than five in 10,000 persons in the EU. Additionally, designation is granted for products intended for the diagnosis, prevention or treatment of a life-threatening, seriously debilitating or serious and chronic condition when, without incentives, it is unlikely that sales of the drug in the EU would be sufficient to justify the necessary investment in developing the drug or biological product or where there is no satisfactory method of diagnosis, prevention or treatment, or, if such a method exists, the medicine must be of significant benefit to those affected by the condition.

In the United States, orphan drug designation entitles a party to financial incentives such as opportunities for grant funding towards clinical trial costs, tax advantages and user-fee waivers. In addition, if a product receives the first FDA approval for the indication for which it has orphan designation, the product is entitled to orphan drug exclusivity, which means the FDA may not approve any other application to market the same drug for the same indication for a period of seven years, except in limited circumstances, such as a showing of clinical superiority over the product with orphan exclusivity or where the manufacturer is unable to assure sufficient product quantity. In the EU, orphan drug designation entitles a party to financial incentives such as reduction of fees or fee waivers and ten years of market exclusivity following drug or biological product approval. This period may be reduced to six years if the orphan drug designation criteria are no longer met, including where it is shown that the product is sufficiently profitable not to justify maintenance of market exclusivity.

We have obtained orphan drug designation from the FDA and potentially plan to seek that designation from the EMA for our asset zenocutuzumab, and plan to potentially seek such designation from the FDA and EMA for other clinical assets, where supported by data in the appropriate indications that meet the criteria for orphan status. Even though we obtained orphan designation in the United States for zenocutuzumab and may for other antibody candidates in the United States and/or the EU, we may not be the first to obtain marketing approval for any particular orphan indication due to the uncertainties associated with developing pharmaceutical products. In addition, exclusive marketing rights in the United States may be limited if we seek approval for an indication broader than the orphan-designated indication or may be lost if the FDA later determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantities of the product to meet the needs of patients with the rare disease or condition. Further, even if we obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs with different active moieties can be approved for the same condition. Even after an orphan drug is approved, the FDA or the EMA can subsequently approve the same drug with the same active moiety for the same condition if the FDA or the EMA concludes that the later drug is safer, more effective, or makes a major contribution to patient care. Orphan drug designation neither shortens the development time or regulatory review time of a drug nor gives the drug any advantage in the regulatory review or approval process. In addition, while we intend to seek orphan drug designation, when appropriate, we may not receive such designation.

The successful commercialization of our antibody candidates will depend in part on the extent to which governmental authorities and health insurers establish adequate coverage, reimbursement levels and pricing policies. Failure to obtain or maintain adequate coverage and reimbursement for our antibody candidates, if approved, could limit our ability to market those products and decrease our ability to generate revenue.

The availability and adequacy of coverage and reimbursement by governmental healthcare programs such as Medicare and Medicaid, private health insurers and other third-party payors are essential for most patients to be able to afford products such as our antibody candidates, assuming approval. Our ability to achieve acceptable levels of coverage and reimbursement for products by governmental authorities, private health insurers and other organizations will have an effect on our ability to successfully commercialize and attract additional collaborators to invest in the development of our antibody candidates. Assuming we obtain coverage for a given product by a third-party payor, the resulting reimbursement payment rates may not be adequate or may require co-payments that patients find unacceptably high. We cannot be sure that coverage and reimbursement in the United States, the EU or elsewhere will be available for any product that we may develop, and any reimbursement that may become available may be decreased or eliminated in the future. Third-party payors increasingly are challenging prices charged for pharmaceutical products and services, and many third-party payors may refuse to provide coverage and reimbursement for particular drugs when an equivalent generic drug or a less expensive therapy is available. It is possible that a third-party payor may consider our antibody candidate and other therapies as substitutable and only offer to reimburse patients for the less expensive product. Even if we show improved efficacy or improved convenience of administration with our antibody candidate, pricing of existing drugs may limit the amount we will be able to charge for our antibody candidate. These payors may deny or revoke the reimbursement status of a given drug product or establish prices for new or existing marketed products at levels that are too low to enable us to realize an appropriate return on our investment in product development. If

reimbursement is not available or is available only at limited levels, we may not be able to successfully commercialize our antibody candidates and may not be able to obtain a satisfactory financial return on products that we may develop.

There is significant uncertainty related to the insurance coverage and reimbursement of newly approved products. In the United States, third-party payors, including private and governmental payors, such as the Medicare and Medicaid programs, play an important role in determining the extent to which new drugs and biologics will be covered. The Medicare and Medicaid programs increasingly are used as models for how private payors and other governmental payors develop their coverage and reimbursement policies for drugs and biologics. Some third-party payors may require pre-approval of coverage for new or innovative devices or drug therapies before they will reimburse health care providers who use such therapies. It is difficult to predict at this time what third-party payors will decide with respect to the coverage and reimbursement for our antibody candidates.

Obtaining and maintaining reimbursement status is time-consuming and costly. No uniform policy for coverage and reimbursement for drug products exists among third-party payors in the United States. Therefore, coverage and reimbursement for drug products can differ significantly from payor to payor. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of any future products to each payor separately, with no assurance that coverage and adequate reimbursement will be applied consistently or obtained in the first instance. Furthermore, rules and regulations regarding reimbursement change frequently, in some cases at short notice, and we believe that changes in these rules and regulations are likely.

Outside the United States, international operations are generally subject to extensive governmental price controls and other market regulations, and we believe the increasing emphasis on cost-containment initiatives in Europe, Canada, and other countries has and will continue to put pressure on the pricing and usage of our antibody candidates, if approved. In many countries, the prices of medical products are subject to varying price control mechanisms as part of national health systems. Other countries allow companies to fix their own prices for medical products, but monitor and control company profits. Additional foreign price controls or other changes in pricing regulation could restrict the amount that we are able to charge for our antibody candidates, if approved. Accordingly, in markets outside the United States, the reimbursement for our products may be reduced compared with the United States and may be insufficient to generate commercially reasonable revenue and profits.

Moreover, increasing efforts by governmental and third-party payors in the United States and abroad to cap or reduce healthcare costs may cause such organizations to limit both coverage and the level of reimbursement for newly approved products and, as a result, they may not cover or provide adequate payment for our antibody candidates, if approved. We expect to experience pricing pressures in connection with the sale of any of our antibody candidates that are approved due to the trend toward managed healthcare, the increasing influence of health maintenance organizations, and additional legislative changes. The downward pressure on healthcare costs in general, particularly prescription drugs and surgical procedures and other treatments, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products.

Our products may not gain market acceptance, in which case we may not be able to generate product revenues, which will materially adversely affect our business, financial condition and results of operations.

Even if the FDA, the EMA or any other regulatory authority approves the marketing of any antibody candidates that we develop on our own or with a collaborator, physicians, healthcare providers, patients or the medical community may not accept or use them. If these products do not achieve an adequate level of acceptance, we may not generate significant product revenues or any profits from operations. The degree of market acceptance of any of our antibody candidates that are approved will depend on a variety of factors, including:

- the timing of market introduction;
- the number and clinical profile of competing products;
- our ability to provide acceptable evidence of safety and efficacy;
- the prevalence and severity of any side effects;
- relative convenience and ease of administration;
- cost-effectiveness;
- patient diagnostics and screening infrastructure in each market;
- marketing and distribution support;
- availability of adequate coverage, reimbursement and adequate payment from health maintenance organizations and other insurers, both public and private; and
- other potential advantages over alternative treatment methods.

Failure of our antibody candidates, if approved, to gain market acceptance will have a material adverse impact on our ability to generate revenues to provide a satisfactory, or any, return on our investments. Even if some products achieve market acceptance, the market may prove not to be large enough to allow us to generate significant revenues.

We currently have no marketing, sales or distribution infrastructure. If we are unable to develop sales, marketing and distribution capabilities on our own or through collaborations, we will not be successful in commercializing our antibody candidates.

We currently have no marketing, sales and distribution capabilities because all of our antibody candidates are still in clinical or pre-clinical development. If any of our antibody candidates are approved, we intend either to establish a sales and marketing organization with technical expertise and supporting distribution capabilities to commercialize our antibody candidates, or to outsource this function to a third party. Either of these options would be expensive and time consuming. These costs may be incurred in advance of any approval of our antibody candidates. In addition, we may not be able to hire a sales force that is sufficient in size or has adequate expertise in the medical markets that we intend to target. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of any approved products.

To the extent that we enter into collaboration agreements with respect to marketing, sales or distribution, our product revenue may be lower than if we directly marketed or sold any approved products. In addition, any revenue we receive will depend in whole or in part upon the efforts of these third-party collaborators, which may not be successful and are generally not within our control. If we are unable to enter into these arrangements on acceptable terms or at all, we may not be able to successfully commercialize any approved products. If we are not successful in commercializing any approved products, 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.

We have never commercialized an antibody candidate before and may lack the necessary expertise, personnel and resources to successfully commercialize our products on our own or together with suitable collaborators.

We have never commercialized an antibody candidate, and we currently have no sales force, marketing or distribution capabilities. To achieve commercial success for our antibody candidates, if approved, which we may license to others, we will rely on the assistance and guidance of those collaborators. For antibody candidates for which we retain commercialization rights, we will have to develop our own sales, marketing and supply organization or outsource these activities to a third party. We may rely on outside consultants to provide advice on commercialization strategies, which may fail to deliver or provide effective guidance to maximize any commercial opportunity, if any, that may arise from our antibody candidates.

Factors that may affect our ability to commercialize our antibody candidates on our own include obtaining effective advice from consultants on commercialization strategy, recruiting and retaining adequate numbers of effective sales and marketing personnel, obtaining access to or persuading adequate numbers of physicians to prescribe our antibody candidates and other unforeseen costs associated with creating an independent sales and marketing organization. Developing a sales and marketing organization will be expensive and time-consuming and could delay the launch of our antibody candidates, if approved. We may not be able to build an effective sales and marketing organization. If we are unable to build our own distribution and marketing capabilities or to find suitable partners for the commercialization of our antibody candidates, we may not generate revenues from them or be able to reach or sustain profitability.

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

The ACA includes a subtitle called the Biologics Price Competition and Innovation Act of 2009 (BPCIA) which created an abbreviated approval pathway for biological products that are biosimilar to or interchangeable with an FDA-licensed reference biological product. Under the BPCIA, an application for a biosimilar product may not be submitted to the FDA until four years following the date that the reference product was first approved by the FDA. In addition, the approval of a biosimilar product may not be made effective by the FDA until 12 years from the date on which the reference product was first approved. During this 12-year period of exclusivity, another company may still market a competing version of the reference product if the FDA approves a full BLA for the competing product containing the sponsor's own pre-clinical data and data from adequate and well-controlled clinical trials to demonstrate the safety, purity and potency of their product. The law is complex and is still being interpreted and implemented by the FDA. As a result, its ultimate impact, implementation, and meaning are subject to uncertainty.

We believe that any of our antibody candidates approved as a biological product under a BLA should qualify for the 12-year period of exclusivity. However, there is a risk that this exclusivity could be shortened due to congressional action or otherwise. Other aspects of the BPCIA, some of which may impact the BPCIA exclusivity provisions, have also been the subject of recent litigation. Moreover, the extent to which a biosimilar, once approved, will be substituted for any one of our reference products in a way that is similar to traditional generic substitution for non-biological products is not yet clear, and will depend on a number of marketplace and regulatory factors that are still developing.

Jurisdictions in addition to the United States have established abbreviated pathways for regulatory approval of biological products that are biosimilar to earlier approved reference products. For example, the EU has had an established regulatory pathway for biosimilars since 2005.

The increased likelihood of biosimilar competition has increased the risk of loss of innovators' market exclusivity. Due to this risk, and uncertainties regarding patent protection, if our antibody candidates are approved for marketing, it is not possible to predict the length of market exclusivity for any particular product with certainty based solely on the expiration of the relevant patent(s) or the current forms of regulatory exclusivity. It is also not possible to predict changes in United States regulatory law that might reduce biological product regulatory exclusivity. The loss of market exclusivity for a product would likely materially and negatively affect revenues and we may not generate adequate or sufficient revenues from them or be able to reach or sustain profitability.

Risks Related to Our Dependence on Third Parties

We rely, and expect to continue to rely, on third parties, including independent clinical investigators and CROs, to conduct our pre-clinical studies and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our antibody candidates and our business could be substantially harmed.

We have relied upon and plan to continue to rely upon third parties, including independent clinical investigators and third-party CROs, to conduct our pre-clinical studies and clinical trials and to monitor and manage data for our ongoing pre-clinical and clinical programs. We rely on these parties for execution of our pre-clinical studies and clinical trials, and control only certain aspects of their activities. Nevertheless, we are responsible for ensuring that each of our studies and trials is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards, and our reliance on these third parties does not relieve us of our regulatory responsibilities. We and our third-party contractors and CROs are required to comply with GCP requirements, which are regulations and guidelines enforced by the FDA, the Competent Authorities of the Member States of the EEA, and comparable foreign regulatory authorities for all of our antibody candidates in clinical development. Regulatory authorities enforce these GCPs through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of our CROs fail to comply with applicable GCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA, the EMA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials comply with GCP regulations. In addition, our clinical trials must be conducted with the antibody candidate produced under cGMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

Further, these investigators and CROs are not our employees and we will not be able to control, other than by contract, the amount of resources, including time, which they devote to our antibody candidates and clinical trials. If independent investigators or CROs fail to devote sufficient resources to the development of our antibody candidates, or if their performance is substandard, it may delay or compromise the prospects for approval and commercialization of any antibody candidates that we develop. Moreover, as a result of the COVID-19 pandemic, certain of our third-party CROs have been affected and in some instances have experienced cessation or mitigation of activity and may experience closures and labor shortages, which may negatively affect our pre-clinical and clinical development activities. In addition, the use of third-party service providers may require us to disclose our proprietary information to these parties, which could increase the risk that this information will be misappropriated.

Our CROs have the right to terminate their agreements with us in the event of an uncured material breach. In addition, some of our CROs have an ability to terminate their respective agreements with us if it can be reasonably demonstrated that the safety of the subjects participating in our clinical trials warrants such termination, if we make a general assignment for the benefit of our creditors or if we are liquidated.

If any of our relationships with these third-party CROs terminate, we may not be able to enter into arrangements with alternative CROs or to do so on commercially reasonable terms. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated and we may not be able to obtain regulatory approval for or successfully commercialize our antibody candidates. As a result, our results of operations and the commercial prospects for our antibody candidates would be harmed, our costs could increase and our ability to generate revenues could be delayed.

Switching or adding additional CROs involves additional cost and requires management time and focus. In addition, there is a natural transition period when a new CRO commences work. As a result, delays occur, which can materially impact our ability to meet our desired clinical development timelines. Additionally, CROs may lack the capacity to absorb higher workloads or take on additional capacity to support our needs. Though we carefully manage our relationships with our CROs, there can be no assurance that we will not encounter similar challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, financial condition and prospects.

The collaboration and license agreement, or the Collaboration Agreement, with Incyte Corporation (Incyte) is important to our business. If suitable monospecific or bispecific antibody candidates are not identified for further development and commercialization activities under the Collaboration Agreement, or if we or Incyte fail to adequately perform under the Collaboration Agreement, or if we or Incyte terminate the Collaboration Agreement, the development and commercialization of our antibody candidates would be delayed or terminated and our business would be adversely affected.

The Collaboration Agreement may be terminated:

- in its entirety or on a program-by-program basis by Incyte for convenience;
- in its entirety or on a program-by-program basis by either party due to a material breach of the Collaboration Agreement, or any one or more programs under the Collaboration Agreement, as applicable; and
- on a program-by-program basis (but not in its entirety), by either party if the other party challenges the terminating party's patents for such program, and such challenge is not withdrawn within 30 days.

If the Collaboration Agreement is terminated with respect to one or more programs, all rights in the terminated programs revert to us, subject to payment to Incyte of a reverse royalty of up to 4% on sales of future products, depending on the stage of development as of the date of termination, if we elect to pursue development and commercialization of monospecific or bispecific antibody candidates arising from the terminated programs.

Termination of the Collaboration Agreement could cause significant delays in our antibody candidate development and commercialization efforts, which could prevent us from commercializing our antibody candidates without first expanding our internal capabilities or entering into another agreement with a third party. Any suitable alternative collaboration or license agreement would take considerable time to negotiate and could also be on less favorable terms to us. In addition, under the Collaboration Agreement, Incyte agreed to conduct certain clinical development activities. If the Collaboration Agreement were to be terminated, and whether or not we identify another suitable collaborator, we may need to seek additional financing to support the research and development of any terminated antibody candidates so that we may continue development activities, or we may be forced to discontinue development of terminated antibody candidates, each of which could have a material adverse effect on our business.

Under the Collaboration Agreement, with the exception of MCLA-145 where we retain full U.S. rights, we are dependent upon Incyte to successfully develop and commercialize any antibody candidates that are identified for further development under the Collaboration Agreement. With the exception of those programs where we retain certain co-development rights, we have limited ability to influence or control Incyte's development and commercialization activities or the resources it allocates to development of product candidates identified under the Collaboration Agreement. Our interests and Incyte's interests may differ or conflict from time to time, or we may disagree with Incyte's level of effort or resource allocation. Incyte may internally prioritize programs under development within the collaboration differently than we would, or it may not allocate sufficient resources to effectively or optimally develop or commercialize antibody candidates arising from such programs. If these events were to occur, our ability to receive revenue from the commercialization of products arising from such programs would be reduced, and our business would be adversely affected.

The collaboration and license agreements with Simcere, and Betta Pharma, and the research and license agreement with Ono are important to our business. If our Biclomics® antibodies licensed in these collaboration and license agreements fail to advance or experience unacceptable safety or efficacy results if clinically developed, this could adversely impact the reputation of our platform and our ability to engage in future collaborations.

If our collaboration agreements with Simcere or Betta Pharma or our research and license agreements with Ono are terminated with respect to one or more programs, or the pre-clinical assets associated with these agreements fail to advance into the clinic, or experience negative results with respect to safety, efficacy, manufacturability, or other features of research and development, this could adversely affect the reputation of our Biclomics® technology platform and our ability to engage in future collaborations or licensing agreements. While we have certain contractual provisions in place in our collaboration agreements with Simcere and Betta Pharma that permit us to supervise development efforts associated with our pre-clinical assets out-licensed to these entities, which have product rights in China, we cannot guarantee that these assets will be developed in China in accordance with our standards as applied to our wholly owned programs. Ono is currently pursuing two antibodies generated by us through use of our proprietary Biclomics® platform in an area outside oncology. To the extent these assets do not successfully advance through clinical development, this may impair our ability to leverage our platform in areas outside oncology or to engage in future license agreements to further expand the use of our platform and generate future revenue. Should any of these collaborations or license agreements fail or be terminated, any suitable alternative collaboration or license agreement would take considerable time to negotiate, if at all, and could also be on less favorable terms to us. If these agreements were to be terminated, and whether or not we identify a suitable alternative collaborator, we may need to seek additional financing to support the research and development of any terminated antibody candidates so that we may continue development activities, or we may be forced to discontinue development of terminated antibody candidates, each of which could have a material adverse effect on our business.

If we fail to enter into new strategic relationships our business, financial condition, commercialization prospects and results of operations may be materially adversely affected.

Our product development programs and the potential commercialization of our antibody candidates will require substantial additional cash to fund expenses. Therefore, for some of our antibody candidates and with respect to our recently developed Triclonics™ technology platform, we may decide to enter into new collaborations with pharmaceutical or biopharmaceutical companies for the development and potential commercialization of those bispecific and trispecific antibody candidates. For instance, we have license and collaboration agreements with Ono, Incyte, Simcere and Betta, under which we have licensed the development and commercialization of certain of our monospecific or bispecific antibody candidates.

We face significant competition in seeking appropriate collaborators. Collaborations are complex and time-consuming to negotiate and document. We may also be restricted under existing and future collaboration agreements from entering into agreements on certain terms with other potential collaborators. 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 particular bispecific or trispecific antibody candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or 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 antibody candidates to market, further research and develop new trispecific antibody candidates, enhance our Biclomics® and Triclonics™ technology platforms and generate product revenue. If we do enter into a new collaboration agreement, we could be subject to the following risks, each of which may materially harm our business, commercialization prospects and financial condition:

- we may not be able to control the amount and timing of resources that the collaborator devotes to the product development program;
- the collaborator may experience financial difficulties;
- we may be required to relinquish important rights such as marketing, distribution and intellectual property rights;
- a collaborator may experience technical, clinical, intellectual property, manufacturing or other setbacks in the research or development of a product program arising from our collaboration adversely affecting the financial return of our collaboration or the reputation of our technology platform;
- a collaborator could move forward with a competing product developed either independently or in collaboration with third parties, including our competitors; or
- business combinations or significant changes in a collaborator's business strategy may adversely affect our willingness to complete our obligations under any arrangement.

We currently rely on third-party suppliers and other third parties for production of our antibody candidates and our dependence on these third parties may impair the advancement of our research and development programs and the development of our antibody candidates. Moreover, we intend to rely on third parties to produce commercial supplies of any approved antibody candidate and our commercialization of any of our antibody candidates could be stopped, delayed or made less profitable if those third parties fail to obtain approval of the FDA or comparable foreign regulatory authorities following inspection of their facilities and procedures to manufacture our antibody candidates and products, fail to provide us with sufficient quantities of antibody product or fail to do so at acceptable quality levels or prices or fail to otherwise complete their duties in compliance with their obligations to us or other parties.

We rely on and expect to continue to rely on third-party contract manufacturing organizations (CMOs) for the supply of cGMP-grade clinical trial materials and commercial quantities of our antibody candidates and products, if approved. Reliance on third-party providers may expose us to more risk than if we were to manufacture antibody candidates ourselves. The facilities used by our CMOs to manufacture our antibody candidates must be approved by the FDA pursuant to inspections that will be conducted after we submit our BLA to the FDA. We have limited control over the manufacturing process of, and beyond contractual terms, we are completely dependent on our CMOs for compliance with cGMP for the manufacture of our antibody candidates. If our CMOs cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA or comparable foreign regulatory authorities, or are unable to do so in a timely manner, they will not be able to secure and/or maintain regulatory approval for their manufacturing facilities or may result in delay of our ability to obtain marketing authorization, if any, of our antibody candidates. In addition, we have limited control over the ability of our CMOs to maintain adequate quality control, quality assurance and qualified personnel. If the FDA or a comparable foreign regulatory authority does not approve these facilities for the manufacture of our antibody candidates or if it withdraws any such approval in the future, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for or market our antibody candidates, if approved. In addition, any failure to achieve and maintain compliance with these laws, regulations and standards could subject us to

the risk that we may have to suspend the manufacturing of our antibody candidates or that obtained approvals could be revoked, which would adversely affect our business and reputation. Furthermore, third-party providers may breach existing agreements they have with us because of factors beyond our control. They may also terminate or refuse to renew their agreement because of their own financial difficulties or business priorities, at a time that is costly or otherwise inconvenient for us. If we were unable to find an adequate replacement or another acceptable solution in time, our clinical trials could be delayed or our commercial activities could be harmed. In addition, the fact that we are dependent on our collaborators, our CMOs and other third parties for the manufacture, filling, storage and distribution of our antibody candidates means that we are subject to the risk that the products may have manufacturing defects that we have limited ability to prevent or control. The sale of products containing such defects could adversely affect our business, financial condition and results of operations.

Growth in the costs and expenses of components or raw materials may also adversely influence our business, financial condition and results of operations. Supply sources could be interrupted from time to time and, if interrupted, there is no guarantee that supplies could be resumed (whether in part or in whole) within a reasonable timeframe and at an acceptable cost or at all.

We rely on our CMOs to purchase from third-party suppliers the materials necessary to produce our antibody candidates for our clinical trials, and will rely on our existing and future collaborators to purchase from third-party suppliers the materials necessary to develop and produce our antibody candidates for future clinical trials and, upon approval, our products for commercialization. There are a limited number of suppliers for raw materials that we use to manufacture our antibody candidates and there may be a need to assess alternate suppliers to prevent a possible disruption of the manufacture of the materials necessary to produce our antibody candidates for our clinical trials, and if approved, ultimately for commercial sale. Apart from contractual measures, we do not have any control over the process or timing of the acquisition of these raw materials by our manufacturers or manufacturers paid by our collaborators. Moreover, we currently do not have any agreements for the commercial production of these raw materials. Although we generally do not begin a clinical trial unless we believe we have a sufficient supply of an antibody candidate to complete the clinical trial or have secured resupply capacity, any significant delay in the supply of an antibody candidate, or the raw material components thereof, for a planned or an ongoing clinical trial due to the need to replace a third-party manufacturer could considerably delay completion of our clinical trials, product testing and potential regulatory approval of our antibody candidates. If our manufacturers, collaborators or we are unable to purchase these raw materials after regulatory approval has been obtained for our antibody candidates, the commercial launch of our antibody candidates would be delayed or there would be a shortage in supply, which would impair our ability to generate revenues from the sale of our antibody candidates. Moreover, as a result of the COVID-19 pandemic, third-party manufacturers have been affected, which could disrupt or delay their activities and as a result we could face difficulty sourcing key components necessary to produce supply of our product candidates, which may negatively affect our pre-clinical and clinical development activities.

We rely on our manufacturers and other subcontractors to comply with and respect the proprietary rights of others in conducting their contractual obligations for us. If our manufacturers or other subcontractors fail to acquire the proper licenses or otherwise infringe third party proprietary rights in the course of completing their contractual obligations to us, we may have to find alternative manufacturers or defend against claims of infringement, either of which would significantly impact our ability to develop, obtain regulatory approval for or market our antibody candidates, if approved.

Risks Related to Intellectual Property and Information Technology

We rely on patents and other intellectual property rights to protect our technology, including antibody candidates and our Biclomics® technology platform and Triclomics™ technology platform, the enforcement, defense and maintenance of which may be challenging and costly. Failure to enforce or protect these rights adequately could harm our ability to compete and impair our business.

Our commercial success depends in part on obtaining and maintaining patents and other forms of intellectual property rights for our Biclomics® technology platform, Triclomics™ technology platform, our heavy chain variable regions and binding domains that bind particular antigens, our monospecific antibodies, bispecific antibody, trispecific antibody and antibody clinical candidates, products, their format and methods and host cells used to produce, screen, manufacture and purify those antibody and antibody clinical candidates, the methods for treating patients using those candidates, among other aspects of our technology or on licensing-in such rights. Failure to protect or to obtain, maintain or extend adequate patent and other intellectual property rights could materially adversely affect our ability to develop and market our platform technologies, and antibody candidates.

The patent prosecution process is expensive and time-consuming, and we and our current or future licensors, licensees or collaborators may not be able to prepare, file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we or our licensors, licensees or collaborators will fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Further, the issuance, scope, validity, enforceability and commercial value of our and our current or future licensors', licensees' or collaborators' patent rights are highly uncertain. Our and our licensors' pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. The patent examination process may require us or our licensors, licensees or collaborators to narrow the scope of the claims of our or our licensors', licensees' or collaborators' pending and future patent applications, which may limit the scope of patent protection that may be obtained. We cannot assure you that all of the potentially relevant prior art relating to our patents and patent applications has been found. If such prior art exists, it can invalidate a patent or prevent a patent from issuing from

a pending patent application. Even if patents do successfully issue and even if such patents cover our Biclonics® technology platform, Triclonics™ technology platform, our heavy chain variable regions and binding domains that bind particular antigens, our monospecific antibodies, antibody, trispecific antibody and antibody clinical candidates, products, their format and methods and host cells used to produce, screen, manufacture and purify those antibody and antibody clinical candidates, the methods for treating patients using those candidates, and other technologies, third parties may initiate opposition, interference, re-examination, post-grant review, inter partes review, nullification or derivation action in court or before patent offices, or similar proceedings challenging the validity, enforceability or scope of such patents, which may result in the patent claims being narrowed or invalidated. Our and our licensors', licensees' or collaborators' patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications, and then only to the extent the issued claims cover the technology.

Because patent applications are confidential for a period of time after filing, and some remain so until issued, we cannot be certain that we or our licensors were the first to file any patent application related to our technology, including our antibody candidates. Furthermore, if third parties have filed such patent applications on or before March 15, 2013, an interference proceeding can be initiated by such third parties to determine who was the first to invent any of the subject matter covered by the patent claims of our applications. If third parties have filed such applications after March 15, 2013, a derivation proceeding can be initiated by such third parties to determine whether our invention was derived from theirs.

Issued patents covering one or more of our products or the Biclonics® technology or Triclonics™ technology platforms could be found invalid or unenforceable if challenged in court.

To protect our competitive position, we may from time to time need to resort to litigation to enforce or defend any patents or other intellectual property rights owned by or licensed to us, or to determine or challenge the scope or validity of patents or other intellectual property rights of third parties. As enforcement of intellectual property rights is difficult, unpredictable and expensive, we may fail in enforcing our rights—in which case our competitors may be permitted to use our technology without being enjoined, required to pay us any license fees, or compensate us for lost profits or reasonable royalty. In addition, litigation involving our patents carries the risk that one or more of our patents will be held invalid (in whole or in part, on a claim-by-claim basis) or held unenforceable. Such an adverse court ruling could allow third parties to commercialize technology covered by our patents we seek to enforce, such as those covering our antibody candidates or methods, or our Biclonics® technology and Triclonics™ technology platforms among other technologies, and then compete directly with us, without payment to us.

If we were to initiate legal proceedings against a third party to enforce a patent covering our technology, one of our products or methods, the defendant could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the United States or in certain jurisdictions in Europe, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, for example, lack of utility, novelty, obviousness, non-enablement or lack of written description or as constituting unpatentable subject matter. Grounds for an unenforceability assertion could be an allegation that someone substantively involved in prosecution of the patent withheld but-for material information from the U.S. Patent and Trademark Office (USPTO) or engaged in affirmatively egregious misconduct, during prosecution, with a specific intent to deceive the USPTO. The outcome following legal assertions of invalidity and unenforceability during patent litigation is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we could lose at least part, and perhaps all, of the patent protection on one or more of our technologies, products, methods or certain aspects of our Biclonics® technology and Triclonics™ technology platforms. Such a loss of patent protection could have a material adverse impact on our business. Patents and other intellectual property rights also will not protect our technology if competitors design around our protected technology without infringing our patents or other intellectual property rights.

Intellectual property rights of third parties could adversely affect our ability to commercialize our antibody candidates, such that we could be required to litigate or obtain licenses from third parties in order to develop or market our antibody candidates. Such litigation or licenses could be costly or not available on commercially reasonable terms.

Our competitive position may suffer if patents issued to third parties or other third-party intellectual property rights cover our technology platforms, methods or candidates or elements thereof, our manufacture or uses relevant to our development, or other attributes of our antibody candidates or our Biclonics® technology platform or Triclonics™ technology platform. In such cases, we may not be in a position to develop or commercialize products or bispecific or trispecific antibody candidates unless we successfully pursue litigation, opposition, inter partes, or related post-grant proceedings to nullify or invalidate the third-party intellectual property right concerned, or enter into a license agreement with the intellectual property right holder, if available on commercially reasonable terms. In addition, we are aware of issued patents and/or pending patent applications held by third parties that may be alleged as covering some of our antibody candidates. We believe that if such patents or patent applications (if issued as currently pending) were asserted against us, we would have counterclaims and defenses against such claims, including non-infringement, the affirmative defense of safe harbor designed to protect activity undertaken to obtain federal regulatory approval of a drug, including under 35 U.S.C. § 271(e) and similar foreign exceptions to infringement, and defenses concerning patent invalidity and/or unenforceability. However, if such counterclaims and defenses were not successful and such patents were successfully asserted against us such that they

are found to be valid and enforceable, and infringed by our antibody candidates, unless we obtain a license to such patents, which may not be available on commercially reasonable terms or at all, we could be prevented from continuing to develop or commercialize our antibody candidates. We could also be required to pay substantial damages. Similarly, the targets of certain of our antibody candidates have also been the subject of research by many companies, which have filed patent applications or have patents related to such targets and their uses. There can be no assurance any such patents will not be asserted against us or that we will not need to seek licenses from such third parties. We may not be able to secure such licenses on acceptable terms, if at all, and any such litigation would be costly and time-consuming.

It is also possible that we failed to identify relevant patents or applications. For example, U.S. applications filed before November 29, 2000 and certain U.S. applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Patent applications in the United States and elsewhere are published approximately 18 months after the earliest filing for which priority is claimed, with such earliest filing date being commonly referred to as the priority date. Therefore, patent applications covering our products or platform technologies could have been filed by others without our knowledge. Furthermore, we operate in a highly competitive field, and given our limited resources, it is unreasonable to monitor all patent applications purporting to claim broad coverage in the areas in which we are active. Additionally, pending patent applications which have been published can, subject to certain limitations, be later amended in a manner that could cover our platform technologies, our methods, antibody candidates or the use of our bispecific and trispecific antibody candidates.

Third party intellectual property right holders, including our competitors, may actively bring infringement claims against us. The granting of orphan drug status in respect of any of our antibody candidates does not guarantee our freedom to operate and is separate from our risk of possible infringement of third parties' intellectual property rights. We may not be able to successfully settle or otherwise resolve such potential infringement claims. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage or continue costly, unpredictable and time-consuming litigation and may be prevented from or experience substantial delays in marketing any approved products.

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

In addition, if the breadth or strength of protection provided by our or our present or future licensors', collaborators' or partners' patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future antibody candidates. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

Our ability to compete may be adversely affected if we are unsuccessful in defending against any claims by competitors or others that we are infringing upon their intellectual property rights.

The various markets in which we plan to operate are subject to frequent and extensive litigation regarding patents and other intellectual property rights. In addition, many companies in intellectual property-dependent industries, including those producing therapeutics to treat and potentially cure cancer, have employed intellectual property litigation as a means to gain an advantage over their competitors. As a result, we may be required to defend against claims of intellectual property infringement that may be asserted by our competitors against us and, if the outcome of any such litigation is adverse to us, it may affect our ability to compete effectively.

Our involvement in litigation, and in any interferences, opposition, pre and post-grant administrative proceedings or other intellectual property proceedings inside and outside of the United States may divert management from focusing on business operations, could cause us to spend significant amounts of money and may have no guarantee of success. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating, manufacturing or using our products in the United States and/or other jurisdictions that are covered by the subject intellectual property;
- obtain from a third party asserting its intellectual property rights, a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all, or may be non-exclusive thereby giving our competitors access to the same technologies licensed to us;
- redesign those technologies, products or processes that use any allegedly infringing or misappropriated technology, which may result in significant cost or delay to us, or which redesign could be technically infeasible; or
- pay damages, including the possibility of treble damages in a patent case if a court finds us to have willfully infringed certain intellectual property rights.

We are aware that significant number of patents and patent applications may exist relating to aspects of therapeutic antibody technologies filed by, and issued to, third parties.

We cannot assure you that we will ultimately prevail if any of this third-party intellectual property is asserted against us.

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

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, this could have a substantial adverse effect on the price of our common shares. Such litigation or proceedings and the legal costs associated with them, could substantially increase our operating losses and reduce our resources available for development activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace.

We may not be successful in obtaining or maintaining necessary rights to our antibody candidates through acquisitions and in-licenses.

We currently have rights and own our intellectual property, including issued patents and pending patent applications, relating to and covering our antibody candidates and Biclonics® technology and Triclonics™ technology platforms. Because our programs may require the use of proprietary rights held by third parties, the growth of our business may depend in part on our ability to acquire, in-license, maintain or use these proprietary rights. In addition, our antibody candidates may require specific formulations to work effectively and efficiently or companion diagnostics for safely and effective administration of our therapeutic candidates and the rights to these formulations and companion diagnostics may be held by others. We may be unable to acquire or in-license any compositions, methods of use, processes, or other third-party intellectual property rights from third parties that we identify as necessary for our antibody candidates. The licensing and acquisition of third-party intellectual property rights is a competitive area, and a number of more established companies are also pursuing strategies to license or acquire third-party intellectual property rights that we may consider attractive. These established companies may have a competitive advantage over us due to their size, cash resources, and greater clinical development and commercialization capabilities.

In addition, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. We also may be unable to license or acquire third-party intellectual property rights on terms that would allow us to make an appropriate return on our investment. If we are unable to successfully obtain a license to third-party intellectual property rights necessary for the development of an antibody candidate or program, we may have to abandon development of that antibody candidate or program and our business and financial condition could suffer.

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

Our registered or unregistered trademarks, trade names or service marks may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks, trade names, and service marks, which we need to build name recognition by potential collaborators, partners or customers in our markets of interest. Over the long term, if we are unable to establish name recognition based on our trademarks, trade names and service marks then we may not be able to compete effectively and our business may be adversely affected. If other entities use trademarks, trade names or service marks similar to ours in different jurisdictions, or have senior rights to ours, it could interfere with our use of our current trademarks, trade names or service marks throughout the world.

If we do not obtain protection under the Hatch-Waxman Amendments and similar non-U.S. legislation for extending the term of patents covering each of our antibody candidates, our business may be materially harmed.

Patents typically have a limited lifespan. In the United States, if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest U.S. non-provisional filing date. Various extensions may be available, but the life of a patent, and the protection it affords, is limited. Even if patents covering our antibody candidates are obtained, once the patent life has expired for a candidate, we may be open to competition from competitive medications, including biosimilar or generic medications. Given the amount of time required for the development, testing and regulatory review of new antibody candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours, causing our revenue from applicable products to be reduced, possibly materially, and potentially harming our ability to recover our investment in such product or obtain a reasonable return on that investment.

Depending upon the timing, duration and conditions of FDA marketing approval of our antibody candidates, one or more of our U.S. patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Amendments, and similar legislation in the EU. The Hatch-Waxman Amendments permit a patent term extension of up to five years for a patent covering an approved product as compensation for effective patent term lost during product development and the FDA regulatory review process. However, we may not receive an extension if we fail to apply within applicable deadlines, fail to apply prior to expiration of relevant patents or otherwise fail to satisfy applicable requirements. Moreover, the length of the extension could be less than we request. If we are unable to obtain patent term extension or the term of any such extension is less than we request, the period during which we can enforce our patent rights for that product will be shortened and our competitors may obtain approval to market competing products sooner. As a result, our revenue from applicable products could be reduced, possibly materially.

We enjoy only limited geographical protection with respect to certain patents and may face difficulties in certain jurisdictions, which may diminish the value of intellectual property rights in those jurisdictions.

We generally file our first patent application (i.e., priority filing) at the European Patent Office (EPO) or the USPTO. International applications under the Patent Cooperation Treaty (PCT) are usually filed within 12 months after the priority filing. Based on the PCT filing, national and regional patent applications may be filed in additional jurisdictions where we believe our antibody candidates may be marketed or manufactured or our platform technologies may be utilized. We have so far not filed for patent protection in all national and regional jurisdictions where such protection may be available. In addition, we may decide to abandon national and regional patent applications before grant. Finally, the grant proceeding of each national/regional patent is an independent proceeding which may lead to situations in which applications might in some jurisdictions be refused by the relevant patent offices, while granted by others. It is also quite common that depending on the country, the scope of patent protection may vary for the same antibody candidate and/or technology.

Competitors may use our and our existing or future licensors', collaborators' or partners' 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 and our existing or future licensors, collaborators or partners have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our antibody candidates or our platform technologies, and our and our existing or future licensors', collaborators' or partners' patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

The laws of some jurisdictions do not protect intellectual property rights to the same extent as the laws in the United States and the EU, and many companies have encountered significant difficulties in protecting and defending such rights in such jurisdictions. If we or our licensors encounter difficulties in protecting, or are otherwise precluded from effectively protecting, the intellectual property rights important for our business in such jurisdictions, the value of these rights may be diminished and we may face additional competition from others in those jurisdictions.

Some countries have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, some countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of such patent. If we or any of our licensors is forced to grant a license to third parties with respect to any patents relevant to our business, our competitive position may be impaired and our business and results of operations may be adversely affected.

Intellectual property rights do not necessarily address all potential threats to our competitive advantage.

The degree of future protection afforded by our intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect our business, or permit us to maintain our competitive advantage. The following examples are illustrative:

- others may be able to make compounds that are the same as or similar to our antibody candidates but that are not covered by the claims of the patents that we own or have exclusively licensed;
- the patents of third parties may have an adverse effect on our business;
- we or our licensors or any future strategic partners might not have been the first to conceive or reduce to practice the inventions covered by the issued patent or pending patent application that we own or have exclusively licensed;
- we or our licensors or any future strategic partners might not have been the first to file patent applications covering certain of our inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights;

- it is possible that our pending patent applications will not lead to issued patents;
- issued patents that we own or have exclusively licensed may not provide us with any competitive advantage, or may be held invalid or unenforceable, as a result of legal challenges by our competitors;
- our competitors might conduct research and development activities in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets;
- third parties performing manufacturing or testing for us using our antibody candidates or technologies could use the intellectual property of others without obtaining a proper license; and
- we may not develop additional technologies that are patentable.

Changes in patent laws or patent jurisprudence could diminish the value of patents in general, thereby impairing our ability to protect our antibody candidates and technology platforms.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involve both technological complexity and legal complexity. Therefore, obtaining and enforcing biopharmaceutical patents is costly, time-consuming and inherently uncertain.

In September 2011, the America Invents Act (AIA) was enacted in the United States, resulting in significant changes to the U.S. patent system. An important change introduced by the AIA was a transition to a “first-to-file” system for deciding which party should be granted a patent when two or more patent applications are filed by different parties claiming the same invention, which went into effect on March 16, 2013. Therefore, a third party that now files a patent application in the USPTO before we do could be awarded a patent covering an invention of ours even if we created the invention before it was created by the third party. While we are cognizant of the time from invention to filing of a patent application, circumstances could prevent us from promptly filing patent applications for our inventions.

Among some of the other changes introduced by the AIA were changes that limit where a patentee may file a patent infringement suit and providing opportunities for third parties to challenge any issued patent in the USPTO. This applies to all of our U.S. patents, even those issued before March 16, 2013. Because of a lower burden of proof in USPTO proceedings compared to the burden of proof in U.S. federal courts necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a district court action. Accordingly, a third party may attempt to use the USPTO procedures to invalidate our patent claims that would not have been invalidated if first challenged by the third party as a defendant in a district court action. The AIA and its continued implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications, and the patent applications of our existing and future collaborators or licensors and the enforcement or defense of our issued patents.

Depending on decisions by the U.S. Congress, the federal courts, and the USPTO, the laws and regulations governing patents could change in unpredictable ways that could weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future. Similarly, there is complexity and uncertainty related to European patent laws. For example, the European Patent Convention was amended in April 2010 to limit the time permitted for filing divisional applications. In addition, the EPO patent system is relatively stringent in the type of amendments that are allowed during prosecution. These limitations and requirements could adversely affect our ability to obtain new patents in the future that may be important for our business.

Confidentiality agreements with employees, contractors, agents, consultants, collaborators and others may not adequately prevent disclosure of trade secrets and protect other proprietary information.

We consider proprietary trade secrets and/or confidential know-how and unpatented know-how to be important to our business. We may rely on trade secrets and/or confidential know-how to protect our technology, especially where patent protection is believed to be of limited value. However, trade secrets and/or confidential know-how are difficult to maintain as confidential.

To protect this type of information against disclosure or appropriation by competitors, our policy is to require our employees, consultants, contractors, collaborators and advisors to enter into confidentiality agreements with us. However, current or former employees, consultants, contractors, collaborators and advisers may unintentionally or willfully disclose our confidential information to competitors, and confidentiality agreements may not provide an adequate remedy in the event of unauthorized disclosure of confidential information or we may be unaware of such disclosure to enforce our confidentiality agreements. Enforcing a claim that a third party obtained illegally and is using trade secrets and/or confidential know-how is expensive, time consuming and unpredictable. The enforceability of confidentiality agreements may vary from jurisdiction to jurisdiction. Furthermore, if a competitor lawfully obtained or independently developed any of our trade secrets, we would have no right to prevent such competitor from using that technology or information to compete with us, which could harm our competitive position. Additionally, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third parties for misappropriating the trade secret.

Failure to obtain or maintain trade secrets and/or confidential know-how trade protection could adversely affect our competitive position. Moreover, our competitors may independently develop substantially equivalent proprietary information and may even apply for patent protection in respect of the same. If successful in obtaining such patent protection, our competitors could limit our use of our trade secrets and/or confidential know-how.

Under certain circumstances and to guarantee our freedom to operate, we may also decide to publish some know-how to prevent others from obtaining patent rights covering such know-how.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees, including our senior management, were previously employed at universities or at other biopharmaceutical companies, including our competitors or potential competitors. Some of these employees executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed confidential information or intellectual property, including trade secrets or other proprietary information, of any such employee's former employer. Litigation may be necessary to defend against these claims.

If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or sustain damages. Such intellectual property rights could be awarded to a third party, and we could be required to obtain a license from such third party to commercialize our technology or products. Such a license may not be available on commercially reasonable terms or at all. Even if we successfully prosecute or defend against such claims, litigation could result in substantial costs and distract management.

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

Periodic maintenance and annuity fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we or our existing or future licensors or collaborators fail to maintain the patents and patent applications covering our antibody candidates, our competitors might be able to enter the market, which would have an adverse effect on our business.

Use of social media could give rise to liability, breaches of data security, or reputational harm.

We and our employees use social media to communicate internally and externally. While we have policies and procedures in place governing employee use of social media, there is risk that the use of social media by us or our employees to communicate about our antibody candidates, technologies or business may give rise to liability, lead to the loss of trade secrets or other intellectual property, or result in public exposure of personal information of our employees, clinical trial patients, customers, and others. Furthermore, negative posts or comments about us or our antibody candidates, our technologies, and company generally in social media could seriously damage our reputation, brand image, and goodwill. Any of these events could have a material adverse effect on our business, prospects, operating results, and financial condition and could adversely affect the price of our common shares.

Our computer systems, or those used by our CROs or other contractors or consultants, may fail or suffer security breaches, which could adversely affect our business.

Despite the implementation of security measures, our computer systems and data and those of our current or future CROs or other contractors and consultants are vulnerable to compromise or damage from computer hacking, malicious software, fraudulent activity, employee misconduct, human error, telecommunication and electrical failures, natural disasters, or other cybersecurity attacks or accidents. Future acquisitions could expose us to additional cybersecurity risks and vulnerabilities from any newly acquired information technology infrastructure. Cybersecurity attacks are constantly increasing in sophistication and are made by groups and individuals with a wide range of motives (including industrial espionage) and expertise, including by organized criminal groups, "hacktivists," nation states, and others. As a company with an increasingly global presence, our systems are subject to frequent attacks, which are becoming more commonplace in the industry, including attempted hacking, phishing attempts, such as cyber-related threats involving spoofed or manipulated electronic communications, which increasingly represent considerable risk. Due to the nature of some of these attacks, there is a risk that an attack may remain undetected for a period of time. While we continue to make investments to improve the protection of data and information technology, including in the hiring of IT personnel, and improvements to IT infrastructure and controls, there can be no assurance that our efforts will prevent service interruptions or security breaches.

Any cybersecurity incident could adversely affect our business, by leading to, for example, the loss of trade secrets or other intellectual property, demands for ransom or other forms of blackmail, or the unauthorized disclosure of personal or other sensitive information of our employees, clinical trial patients, customers, and others. Although to our knowledge we have not experienced any material cybersecurity incident to date, if such an event were to occur, it could seriously harm our development programs and our business operations. We could be subject to breach notification requirements, regulatory actions taken by governmental authorities, litigation under laws that protect the privacy of personal information, or other forms of legal proceedings, which could result in significant liabilities or penalties. Further, a cybersecurity incident may disrupt our business or damage our reputation, which could have a material adverse effect on our business, prospects, operating results, share price and shareholder value, and financial condition. We could also incur substantial remediation costs, including the costs of investigating the incident, repairing or replacing damaged systems, restoring normal business operations, implementing increased cybersecurity protections, and paying increased insurance premiums.

For example, the loss of clinical trial data from completed, ongoing or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. If a security breach or other incident were to result in the unauthorized access to or unauthorized use, disclosure, release or other processing of clinical trial data or personal data, it may be necessary to notify individuals, governmental authorities, supervisory bodies, the media, and other parties pursuant to privacy and security laws. Likewise, we rely on our third-party research institution collaborators for research and development of our product candidates and other third parties for the manufacture of our product candidates and to conduct clinical trials, and similar events relating to their information technology systems could also seriously harm our business. Any security compromise affecting us, our collaborators or our industry, whether real or perceived, could harm our reputation, erode confidence in the effectiveness of our security measures, and lead to regulatory scrutiny. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or systems, or inappropriate disclosure of confidential or proprietary or personal information, we could incur liability, our competitive position could be harmed, and the further development and commercialization of our product candidates could be delayed.

Risks Related to Employee Matters and Managing Growth

Our future growth and ability to compete depends on retaining our key personnel, recruiting additional qualified personnel and managing transitions among these personnel, such as the recent transition of our former President and Chief Executive Officer, and recent resignations of our former Chief Medical Officer, hiring of our new Chief Medical Officer and resignation of our former Chief Scientific Officer.

Our success depends upon the contributions of our senior management, including our board of directors, our senior management, and other key scientific and technical personnel, many of whom have been instrumental for us and have substantial experience with our therapies and related technologies. The loss of key senior management, managers and senior scientists could delay our research and development activities or impair our ability operate the company effectively. In addition, the competition for qualified personnel in the biopharmaceutical and pharmaceutical field is intense, and our future success depends upon our ability to attract, retain and motivate highly-skilled scientific, technical and managerial employees. We face competition for personnel from other companies, universities, public and private research institutions and other organizations. If our recruitment and retention efforts are unsuccessful, it may be difficult for us to implement our business strategy, which could have a material adverse effect on our business. Our success also depends on our ability to manage transitions among our senior management and other key personnel. In December 2019, Ton Logtenberg, Ph.D., stepped down as an executive director, a position he held since co-founding our company in 2003, and as President, Chief Executive Officer and Principal Financial Officer, and Sven “Bill” Lundberg, M.D. was appointed as an executive director and as President, Chief Executive Officer and Principal Financial Officer. In April 2020, L. Andres Sirulnik, M.D., Ph.D. resigned as Executive Vice President, Chief Medical Officer effective April 24, 2020, and Andrew Joe, M.D., was appointed as senior vice president and Chief Medical Officer, effective July 27, 2020. Further, in April 2020, and Mark Throsby, Ph.D., resigned as the Executive Vice President and Chief Scientific Officer of the Company with an effective date of July 31, 2020. These recent changes in our senior management may be disruptive to our business, and if we are unable to manage orderly transitions in these cases or for other key personnel in the future, or if we are unable to recruit suitable replacements for the Chief Scientific Officer positions, our business may be adversely affected.

We expect to expand our development, regulatory and sales and marketing capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to continue to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug development, regulatory affairs and sales and marketing. To manage our growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

Risks Related to Our Common Shares

The price of our common shares may be volatile and may fluctuate due to factors beyond our control.

The share price of publicly traded emerging biopharmaceutical and drug discovery and development companies has been highly volatile and is likely to remain highly volatile in the future. The market price of our common shares may fluctuate significantly due to a variety of factors, including:

- positive or negative results of testing and clinical trials by us, strategic partners or competitors;
- delays in entering into strategic relationships with respect to development and/or commercialization of our antibody candidates or entry into strategic relationships on terms that are not deemed to be favorable to us;
- technological innovations or commercial product introductions by us or competitors;
- changes in government regulations;
- developments concerning proprietary rights, including patents and litigation matters;
- public concern relating to the commercial value or safety of any of our antibody candidates;
- financing or other corporate transactions;
- publication of research reports or comments by securities or industry analysts;
- general market conditions in the pharmaceutical industry or in the economy as a whole; or
- other events and factors, many of which are beyond our control.

These and other market and industry factors may cause the market price and demand for our common shares to fluctuate substantially, regardless of our actual operating performance, which may limit or prevent investors from readily selling their common shares and may otherwise negatively affect the liquidity of our common shares. In addition, the stock market in general, and biopharmaceutical companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies.

We will continue to incur increased costs as a result of operating as a public company with limited liability (naamloze vennootschap), and our management team will be required to devote substantial time to new compliance initiatives and corporate governance practices.

As a public company, and particularly after we no longer qualify as an emerging growth company or a smaller reporting company, we will continue to incur significant legal, accounting and other expenses related to our operation as a public company. The Sarbanes-Oxley Act of 2002 (SOX), the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Global Market, or Nasdaq, and other applicable securities rules and regulations impose various requirements on reporting public companies, including the establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our board of directors and other personnel will need to continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have and will continue to increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

These rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

Pursuant to Section 404 of SOX (Section 404) we are required to furnish a report by our management on our internal control over financial reporting with our Annual Report on Form 10-K. While we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To maintain compliance with Section 404, we engage in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we continue to dedicate internal resources and have engaged outside consultants and adopted a detailed work plan to assess and document the adequacy of our internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to maintain effective internal control over financial reporting as required by Section 404. Material weaknesses in our internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of any financing we obtain. If we identify one or more material weaknesses, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

Members of our senior management, members of our board of directors, and certain shareholders affiliated with members of our board of directors may be able to exercise significant control over us, and the interests of our other shareholders may conflict with the interests of our existing shareholders.

As of December 31, 2019, members of our senior management, our board of directors and shareholders affiliated with members of our board of directors, in the aggregate, beneficially owned approximately 12% of our common shares. Depending on the level of attendance at our general meetings of shareholders, these shareholders may be in a position to significantly affect the outcome of decisions taken at any such general meeting. Any shareholder or group of shareholders controlling more than 50% of the share capital present and voting at our general meetings of shareholders may control any shareholder resolution requiring a simple majority, including certain decisions relating to our capital structure, the approval of certain significant corporate transactions and amendments to our articles of association. Among other consequences, this concentration of ownership may have the effect of delaying or preventing a change in control and might therefore negatively affect the market price of our common shares.

Future sales, or the possibility of future sales, of a substantial number of our common shares could adversely affect the price of the shares.

Sales of a substantial number of shares of our common stock in the public market, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. We have registered and intend to continue to register all common shares that we may issue under our equity compensation plans. Once registered, these common shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates who hold such shares. In addition, in connection with entering into the Collaboration Agreement, we entered into a Share Subscription Agreement with Incyte, pursuant to which we issued and sold to Incyte 3,200,000 of our common shares. Incyte's ability to sell these common shares is subject to certain limitations, including limitations on the volume of shares that may be sold during a given time period. On August 21, 2019, we filed a Registration Statement on Form F-3, as amended by Post-Effective Amendment No. 1 to Form F-3 on Form S-3, to register the shares of common stock sold to Incyte. As a result, these shares can be freely sold in the public market. In addition, in connection with entering into a settlement agreement with Regeneron Pharmaceuticals, we entered into a Share Subscription Agreement with Regeneron, pursuant to which we issued and sold to Regeneron 600,000 of our common shares. Regeneron's ability to sell these common shares is subject to certain limitations, including limitations on the volume of shares that may be sold during a given time period.

Provisions of our articles of association or Dutch corporate law might deter acquisition bids for us that might be considered favorable and prevent or frustrate any attempt to replace or remove the then board of directors.

Provisions of our articles of association may make it more difficult for a third party to acquire control of us or effect a change in our board of directors. These provisions include:

- the authorization of a class of preferred shares that may be issued to a friendly party;
- the possibility to appoint our board members for staggered terms;
- a provision that our board members may only be removed by the general meeting of shareholders by a two-thirds majority of votes cast representing more than 50% of our outstanding share capital (unless the removal was proposed by the board of directors); and
- a requirement that certain matters, including an amendment of our articles of association, may only be brought to our shareholders for a vote upon a proposal by our board of directors.

Our anti-takeover provision may prevent a beneficial change of control.

We adopted an anti-takeover measure pursuant to which our board of directors may, without shareholder approval, issue (or grant the right to acquire) preferred shares. Pursuant to a call option agreement entered into with an independent special purpose foundation, we may issue an amount of preferred shares up to 100% of our issued capital held by third parties immediately prior to the issuance of such preferred shares.

The preferred shares will be issued to the foundation for their nominal value, of which only 25% will be due upon issuance. The voting rights of our shares are based on nominal value and as we expect our shares to continue to trade substantially in excess of nominal value, preferred shares issued at nominal value can obtain significant voting power for a substantially reduced price and thus be used as a defensive measure. These preferred shares will have both a liquidation and dividend preference over our common shares and will accrue cash dividends at a fixed rate. Subject to the foundation exercising its call option under the call option agreement, the board may issue these preferred shares to protect us from influences that do not serve our best interests and threaten to undermine our continuity, independence and identity. These influences may include a third-party acquiring a significant percentage of our common shares, the announcement of a public offer for our common shares, other concentration of control over our common shares or any other form of pressure on us to alter our strategic policies. The foundation's articles of association provide that it will act to serve the best interests of us, our associated business and all parties connected to us, by opposing any influences that conflict with these

interests and threaten to undermine our continuity, independence and identity. This foundation is structured to operate independently of us.

Because we do not expect to pay cash dividends for the foreseeable future, any returns on an investment in our common shares will likely depend entirely upon any future appreciation in the price of our common shares, which is uncertain.

We have not paid any cash dividends since our incorporation. Even if future operations lead to significant levels of distributable profits, we currently intend that any earnings will be reinvested in our business and that cash dividends will not be paid until we have an established revenue stream to support continuing cash dividends. Payment of any future dividends to shareholders will in addition effectively be at the discretion of the general meeting, upon proposal of the board of directors, after taking into account various factors including our business prospects, cash requirements, financial performance and new product development. In addition, payment of future cash dividends may be made only if our shareholders' equity exceeds the sum of our paid-in and called-up share capital plus the reserves required to be maintained by Dutch law or by our articles of association. Accordingly, investors cannot rely on cash dividend income from our common shares and any returns on an investment in our common shares will likely depend entirely upon any future appreciation in the price of our common shares. In addition, the low trading volume of our common shares may adversely affect the trading price of our common shares, and our shareholders may not be able to sell their common shares for a price higher than the price they paid for our common shares.

Holders of our common shares outside the Netherlands may not be able to exercise preemptive rights.

In the event of an increase in our share capital, holders of our common shares are generally entitled under Dutch law to full preemptive rights, unless these rights are excluded either by a resolution of the general meeting of shareholders, or by a resolution of the board (if the board has been designated by the general meeting of shareholders for this purpose). Certain holders of our common shares outside the Netherlands, in particular U.S. holders of our common shares, may not be able to exercise preemptive rights unless a registration statement under the Securities Act is declared effective with respect to our common shares issuable upon exercise of such rights or an exemption from the registration requirements is available.

The rights of our shareholders may be different from the rights of shareholders in companies governed by the laws of U.S. jurisdictions.

We are a Dutch public company with limited liability (*naamloze vennootschap*). Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of shareholders and the responsibilities of members of our board may be different from the rights and obligations of shareholders in companies governed by the laws of U.S. jurisdictions. In the performance of its duties, our board is required by Dutch law to consider the interests of our company, its shareholders, its employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, the interests of our shareholders.

We are not obligated to and do not comply with all the best practice provisions of the Dutch Corporate Governance Code. This may affect the rights of our shareholders.

We are subject to the Dutch Corporate Governance Code (DCGC). The DCGC contains both principles and best practice provisions for board of directors, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. The DCGC applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere, including Nasdaq. The principles and best practice provisions apply to our board (in relation to role and composition, conflicts of interest and independence requirements, board committees and remuneration), shareholders and the general meeting of shareholders (for example, regarding anti-takeover protection and our obligations to provide information to our shareholders) and financial reporting (such as external auditor and internal audit requirements). We do not comply with all the best practice provisions of the DCGC. As a result, the rights of our shareholders may be affected and our shareholders may not have the same level of protection as a shareholder in another Dutch public company with limited liability (*naamloze vennootschap*) listed in the Netherlands that fully complies with the DCGC.

Claims of U.S. civil liabilities may not be enforceable against us.

We are incorporated under the laws of the Netherlands. Most of our assets are located outside the United States. The United States and the Netherlands currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. With respect to choice of court agreements in civil or commercial matters, we note that the Hague Convention on Choice of Court Agreements entered into force for the Netherlands, but has not entered into force for the United States. Consequently, a final judgment for payment given by a court in the United States, whether or not predicated solely upon U.S. securities laws, would not automatically be recognized or enforceable in the Netherlands. In order to obtain a judgment which is enforceable in the Netherlands, the party in whose favor a final and conclusive judgment of the U.S. court has been rendered will be required to file its claim with a court of competent jurisdiction in the Netherlands. Such party may submit to the

Dutch court the final judgment rendered by the U.S. court. If and to the extent that the Dutch court finds that the jurisdiction of the U.S. court has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the court of the Netherlands will, in principle, give binding effect to the judgment of the U.S. court, unless such judgment contravenes principles of public policy of the Netherlands or is irreconcilable with a judgement of a Dutch court or foreign court that is acknowledged in the Netherlands. Dutch courts may deny the recognition and enforcement of punitive damages or other awards. Moreover, a Dutch court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages. Enforcement and recognition of judgments of U.S. courts in the Netherlands are solely governed by the provisions of the Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*). As a result of the above, it may not be possible for investors to effect service of process within the United States upon us or members of our board or certain experts named herein who are residents of the Netherlands or countries other than the United States or to enforce any judgments against the same obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

As of January 1, 2020, we were no longer a foreign private issuer, and we are required to comply with the provisions of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules of Nasdaq applicable to U.S. domestic issuers, which will continue to require us to incur significant expenses and expend time and resources.

As of January 1, 2020, we were no longer a foreign private issuer, and we are required to comply with all of the provisions applicable to a U.S. domestic issuer under the Exchange Act, including filing an annual report on Form 10-K, quarterly periodic reports and current reports for certain events, complying with the sections of the Exchange Act regulating the solicitation of proxies, requiring insiders to file public reports of their share ownership and trading activities and insiders being liable for profit from trades made in a short period of time. We are also no longer exempt from the requirements of Regulation FD promulgated under the Exchange Act related to selective disclosures. We are also no longer permitted to follow our home country's rules in lieu of the corporate governance obligations imposed by Nasdaq, and are required to comply with the governance practices required by U.S. domestic issuers listed on Nasdaq. We are also required to comply with all other rules of Nasdaq applicable to U.S. domestic issuers, including that our articles of association specify a quorum of no less than one-third of our outstanding voting common shares for meetings of our common shareholders, the solicitation of proxies and the approval by our shareholders in connection with certain events such as the acquisition of stock or assets of another company, the establishment of or amendments to equity-based compensation plans for employees, a change of control and certain private placements. In addition, we are required to report our financial results under U.S. Generally Accepted Accounting Principles, including our historical financial results, which have previously been prepared in accordance with International Financial Reporting Standards. We expect to continue to incur significant legal, accounting, insurance and other expenses and to expend greater time and resources to comply with these requirements. In addition, we may need to develop our reporting and compliance infrastructure and may face challenges in complying with the new requirements applicable to us.

We are an “emerging growth company” and a “smaller reporting company,” and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies and smaller reporting companies will make our common shares less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act and a smaller reporting company under the rules promulgated under the Exchange Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved, and reduced executive compensation disclosure. We may take advantage of these exemptions until we are no longer an emerging growth company. We could be an emerging growth company for up to five years following the initial public offering of our common shares, although circumstances could cause us to lose that status earlier, including if the aggregate market value of our common shares held by non-affiliates exceeds \$700 million as of the end of our second fiscal quarter, in which case we would no longer be an emerging growth company as of the fiscal year-end.

We are also a smaller reporting company, and we will remain a smaller reporting company until the fiscal year following the determination that our voting and non-voting common shares held by non-affiliates is more than \$250 million measured on the last business day of our second fiscal quarter, or our annual revenues are more than \$100 million during the most recently completed fiscal year and our voting and non-voting common shares held by non-affiliates is more than \$700 million measured on the last business day of our second fiscal quarter. Similar to emerging growth companies, smaller reporting companies are able to provide simplified executive compensation disclosure, and have certain other reduced disclosure obligations, including, among other things, being required to provide only two years of audited financial statements and not being required to provide selected financial data or supplemental financial information.

We cannot predict if investors will find our common shares less attractive because we may rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and the price of our common shares may be more volatile.

If securities or industry analysts publish inaccurate or unfavorable research about our business, the price of our common shares and our trading volume could decline.

The trading market for our common shares depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our common shares or publish inaccurate or unfavorable research about our business, the price of our common shares would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common shares could decrease, which might cause the price of our common shares and trading volume to decline.

We may be classified as a passive foreign investment company (PFIC) for U.S. federal income tax purposes, which could result in adverse U.S. federal income tax consequences to U.S. investors in our common shares.

Based on the value of our assets, including goodwill, and composition of our income, assets and operations for the taxable year 2019, we do not believe we were a PFIC for U.S. federal income tax purposes for that taxable year. A non-U.S. company generally will be considered a PFIC for any taxable year if (i) at least 75% of its gross income is passive income (including interest income), or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The value of our assets generally is determined by reference to the market price of our common shares, which may fluctuate considerably. In addition, the composition of our income and assets is affected by how, and how quickly, we spend the cash we raise. It is possible the Internal Revenue Service could determine that we were a PFIC for the taxable year 2019. If we were to be treated as a PFIC for any taxable year during which a U.S. Holder holds a common share, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. Once treated as a PFIC, for any taxable year in which a U.S. Holder owns equity in such foreign corporation, a foreign corporation will generally continue to be treated as a PFIC for all subsequent taxable years with respect to such U.S. Holder. If we were to be a PFIC, and a U.S. Holder does not make an election to treat us as a qualified electing fund (QEF) or a mark-to-market election, excess distributions to a U.S. Holder, and any gain recognized by a U.S. Holder on a disposition of our ordinary shares, would be taxed in an unfavorable way. Among other consequences, our dividends would be taxed at the regular rates applicable to ordinary income, rather than the 20% maximum rate applicable to certain dividends received by an individual from a qualified foreign corporation, and, to the extent that they constituted excess distributions, certain interest charges may apply. In addition, gains on the sale of our shares would be treated in the same way as excess distributions. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to the determination of any future PFIC status. As such, we cannot provide any assurances regarding our PFIC status for any past, current or future taxable years. U.S. Holders should consult their tax advisors regarding the potential application of these rules to their investment in our common shares. A “U.S. Holder” is a holder who, for U.S. federal income tax purposes, is a beneficial owner of our common shares and is:

- (1) a citizen or individual resident of the United States;
- (2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia;
- (3) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- (4) a trust that (a) is subject to the primary supervision of a U.S. court and the control of one or more “United States persons” (within the meaning of Section 7701(a)(30) of the United States Internal Revenue Code of 1986, as amended (Tax Code)) or (b) has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes.

If a U.S. holder is treated as owning at least 10% of our common shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a U.S. holder is treated as owning (directly, indirectly or constructively) at least 10% of the value or voting power of our common shares, such U.S. holder may be treated as a “United States shareholder” with respect to each “controlled foreign corporation” in our group (if any) as such term is defined in the Tax Code. A United States shareholder of a controlled foreign corporation may be required to report annually and include in its U.S. taxable income, as ordinary income, its pro rata share of “Subpart F income,” “global intangible low-taxed income” and investments in U.S. property by controlled foreign corporations, regardless of whether we make any distributions. An individual that is a United States shareholder with respect to a controlled foreign corporation generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a corporation. Failure to comply with these reporting obligations may subject a United States shareholder to significant monetary penalties and may extend the statute of limitations with respect to such United States shareholder’s U.S. federal income tax return for the year for which reporting was due. We cannot provide any assurances that we will assist investors in determining whether we or any of our future non-U.S. subsidiaries is treated as a controlled foreign corporation or whether such investor is treated as a United States shareholder with respect to any such controlled foreign corporations. Further, we cannot provide any assurances that we will furnish to any United States shareholders information that may be necessary to comply with the aforementioned reporting and tax

payment obligations. U.S. holders should consult their tax advisors regarding the potential application of these rules to their investment in our common shares. The risk of being subject to increased taxation may deter our current shareholders from increasing their investment in us and others from investing in us, which could impact the demand for, and value of, our common shares.

Comprehensive tax reform legislation could adversely affect our business and financial condition.

On December 22, 2017, the U.S. government enacted the TCJA, a comprehensive tax legislation that includes significant changes to the taxation of business entities. The TCJA remains unclear in many respects and has been, and may continue to be, the subject of amendments and technical corrections, as well as interpretations and implementing regulations by the Treasury and Internal Revenue Service, which have lessened or increased certain adverse impacts of the TCJA and may do so in the future. We continue to examine the impact the TCJA may have on our business. The effect of the TCJA on our business, whether adverse or favorable, is uncertain, and may not become evident for some period of time. Holders of our common shares should consult their legal and tax advisors regarding the TCJA and the potential tax consequences of investing in our common shares.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are as follows:

Exhibit Number	Exhibit Description	Form	Incorporated by Reference to Filings Indicated			Filed/ Furnished
			File No.	Exhibit No.	Filing Date	
3.1	Articles of Association of Merus N.V., as amended on December 5, 2019	6-K	001-37773	3	12/6/19	
10.1	Non-Executive Director Compensation Program					*
10.2	Settlement Agreement, dated April 16, 2020, between Mark Throsby and Merus N.V.	10-Q	001-37773	10.2	5/11/20	
10.3	Consulting Agreement, dated April 13, 2020, between Victor Sandor and Merus US, Inc.					*
10.4	Employment Agreement, dated July 2, 2020 between Andrew Joe and Merus US, Inc.					*
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.					*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.					*
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					*

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Dated: August 6, 2020

MERUS N.V.

By: /s/ Sven A. Lundberg
Sven (Bill) Ante Lundberg
President, Chief Executive Officer and
Principal Financial Officer

MERUS N.V.

NON-EXECUTIVE DIRECTOR COMPENSATION PROGRAM

The non-executive directors (the “*Non-Executive Directors*” and each, a “*Non-Executive Director*”) of Merus N.V. (the “*Company*”) shall receive cash and equity compensation as set forth in this Non-Executive Director Compensation Program (this “*Program*”). The compensation described in this Program shall be paid or be made, as applicable, automatically and without further action of the Board of Directors (the “*Board*”) or the general meeting of shareholders (the “*General Meeting*”) of the Company, to each Non-Executive Director who is entitled to receive such cash or equity compensation, unless such Non-Executive Director declines the receipt of such cash or equity compensation by written notice to the Company. This Program shall remain in effect until it is revised or rescinded by further action taken by the Board at the recommendation of the Compensation Committee. This Program may be amended, modified or terminated at any time by action taken by the Board at the recommendation of the Compensation Committee. Except as otherwise provided in this Program with respect to Observers (as defined below), the terms and conditions of this Program shall supersede any prior cash and/or equity compensation arrangements for service as a Non-Executive Director (or as a supervisory director) between the Company and any of its Non-Executive Directors.

I. CASH COMPENSATION

A. Annual Retainers. Each Non-Executive Director shall receive an annual retainer of \$38,245 for service on the Board.

B. Additional Annual Retainers. In addition, each Non-Executive Director shall receive the following annual retainers:

1. *Chairperson of the Board*. A Non-Executive Director serving as Chairperson of the Board shall receive an additional annual retainer of \$53,045 for such service.

2. *Audit Committee*. A Non-Executive Director serving as Chairperson of the Audit Committee shall receive an additional annual retainer of \$16,391 for such service. A Non-Executive Director serving as a member other than the Chairperson of the Audit Committee shall receive an additional annual retainer of \$8,195 for such service.

3. *Compensation Committee*. A Non-Executive Director serving as Chairperson of the Compensation Committee shall receive an additional annual retainer of \$13,792 for such service. A Non-Executive Director serving as a member other than the Chairperson of the Compensation Committee shall receive an additional annual retainer of \$5,464 for such service.

4. *Nomination and Corporate Governance Committee*. A Non-Executive Director serving as Chairperson of the Nomination and Corporate Governance Committee shall receive an additional annual retainer of \$13,792 for such service. A Non-Executive Director serving as a member other than the Chairperson of the Nomination and Corporate Governance Committee shall receive an additional annual retainer of \$4,098 for such service.

5. Research and Development Committee. A Non-Executive Director serving as Chairperson of the Research and Development Committee shall receive an additional annual retainer of \$13,792 for such service. A Non-Executive Director serving as a member other than the Chairperson of the Research and Development Committee shall receive an additional annual retainer of \$5,464 for such service.

C.Payment of Retainers. The annual retainers described in Sections I(A) and I(B) shall be earned on a quarterly basis based on a calendar quarter and shall be paid in cash by the Company in arrears not later than the fifteenth day following the end of each calendar quarter. In the event a Non-Executive Director does not serve as a Non-Executive Director, or in the applicable positions described in Section I(B), for an entire calendar quarter, the retainer paid to such Non-Executive Director shall be prorated for the portion of such calendar quarter actually served as a Non-Executive Director, or in such position, as applicable.

D.Annual Increase. Each annual retainer described in Sections I(A) and I(B) shall, without further action taken by the Board or the General Meeting, automatically increase on the first day of each calendar year by an amount equal to 3% of the value of such annual retainer in effect as of the end of the immediately preceding calendar year.

E. Observers. Unless the Board decides otherwise, the date of service as an observer on the Board (an “**Observer**”) commences pursuant to, and as from the effective date of, a written services agreement entered into between such Observer and the Company shall be considered the effective date of commencing service as a Non-Executive Director for purposes of Section I.

II. EQUITY COMPENSATION

Non-Executive Directors shall be eligible to be granted the equity awards described below. The awards described below shall be granted under and shall be subject to the terms and provisions of the Company’s 2016 Incentive Award Plan or any other applicable Company equity incentive plan then-maintained by the Company (the “**Equity Plan**”), shall be granted by the Board, and subject to such award or other agreements as approved by the Board. Subject to Section II(G), all applicable terms of the Equity Plan apply to this Program as if fully set forth herein, and all grants of stock options hereby are subject in all respects to the terms of the Equity Plan and the applicable award agreement.

A.Initial Awards. Each Non-Executive Director who is initially appointed to the Board shall be eligible to receive an option to purchase the number of common shares of the Company having an aggregate Grant Date Fair Value (as defined below) of \$218,545, with any partial shares that result being rounded down to the nearest whole share. The awards described in this Section II(A) shall be referred to as “**Initial Awards.**” No Non-Executive Director shall be granted more than one Initial Award. “**Grant Date Fair Value**” shall mean the value of the option as of the date of grant, which value shall be determined using a Black-Scholes option pricing model and the valuation assumptions used by the Company in accounting for options as of such date; provided, that the fair market value of the common shares of the Company used in such calculation shall be based on the average trading price of the common shares of the Company over the preceding thirty day period. Unless otherwise determined by the Board, options to purchase

common shares granted to an Observer while serving, or upon commencing service, as an Observer shall be considered an Initial Award under this Program.

B. Subsequent Awards. A Non-Executive Director who (i) has been serving as a Non-Executive Director or Observer for at least six months and (ii) will continue to serve as a Non-Executive Director immediately following any annual General Meeting held following his or her initial appointment as a Non-Executive Director, is eligible to be granted, at the occasion of or as soon as practically possible following each such annual General Meeting an option to purchase the number of common shares of the Company having an aggregate Grant Date Fair Value of \$109,273, with any partial shares that result being rounded down to the nearest whole share. The awards described in this Section II(B) shall be referred to as “**Subsequent Awards**.”

D. Terms of Awards Granted to Non-Executive Directors

1. *Exercise Price*. The per share exercise price of each option granted to a Non-Executive Director shall equal the Fair Market Value (as defined in the Equity Plan) of a common share of the Company on the date the option is granted.

2. *Vesting*. Each Initial Award shall vest and become exercisable as to 33% of the shares subject to such Initial Award on the first anniversary of the date of grant and in 24 substantially equal monthly installments thereafter, such that the Initial Award shall be fully vested on the third anniversary of the date of grant, subject to the Non-Executive Director continuing in service as a Non-Executive Director (or an Observer) through each such vesting date. Each Subsequent Award shall vest and become exercisable in 12 substantially equal monthly installments following the date of grant, such that the Subsequent Award shall be fully vested on the first anniversary of the date of grant, subject to the Non-Executive Director continuing in service on the Board as a Non-Executive Director (or an Observer) through each such vesting date. Unless the Board decides otherwise, any portion of an Initial Award or Subsequent Award which is unvested or unexercisable at the time of a Non-Executive Director’s termination of service on the Board shall be immediately forfeited upon such termination of service and shall not thereafter become vested and exercisable. All Initial Awards and Subsequent Awards shall vest in full immediately prior to the occurrence of a Change in Control (as defined in the Equity Plan), to the extent outstanding at such time.

3. *Term*. The maximum term of each Initial Award and each Subsequent Award granted hereunder shall be ten (10) years from the date the option is granted.

E. Annual Increase. The Grant Date Fair Value of each Initial Award and Subsequent Award described in this Program shall, subject to approval by the Board, increase on the first day of each calendar year by an amount equal to 3% of the Grant Date Fair Value applicable to Initial Awards and Subsequent Awards in effect as of the end of the immediately preceding calendar year.

F. Tax deductions. To the extent required to comply with applicable tax laws, the Company shall be allowed to make necessary deductions on any compensation payable under this Program, including (without limitation) for purposes of any payroll tax or income tax.

G. Prevailing terms. In the event of any inconsistency between the terms of the Equity Plan and this Program, the terms of this Program shall prevail. Notwithstanding anything in this Program to the contrary, the terms of an Initial Award granted to an Observer shall be subject to the terms of the award agreement pursuant to which such Initial Award is granted.

* * * * *

CONSULTANCY AGREEMENT

This Consultancy Agreement (“**Agreement**”) is effective as of April 13, 2020 (the “**Effective Date**”) and is entered into by and between:

(1) **Merus US, Inc.**, a Delaware corporation (“**Merus**”);

and

(2) Victor Sandor, M.D. (“**Consultant**”);

(Each of Merus and Consultant may hereinafter be referred to as a “**Party**” or collectively referred to as the “**Parties.**”)

WHEREAS:

- (A) Consultant is an independent contractor and serves on the board of directors of Merus N.V. (the “Board”); and
- (B) In addition to Consultant’s service on the Board, Merus wishes to engage Consultant to provide services to Merus and its affiliates for a limited term, and for the limited purpose of providing professional advice and guidance to Merus and its affiliates with respect to the matters set out in this Agreement, and Consultant is willing to provide such services subject to the terms and conditions of this Agreement.

NOW THEREFORE, for mutual consideration, the receipt and adequacy of which are acknowledged by the Parties, the Parties agree as follows:

1. THE SERVICES

- 1.1 In addition to any services that Consultant may provide as a member of the Board, Merus engages Consultant to provide, and Consultant agrees to provide, professional advice and guidance to Merus and its affiliates in the oversight of (i) the medical, clinical operations, regulatory and biometrics functional heads of Merus and its affiliates, (ii) the NRG1 program team and (iii) the pharmacovigilance activities of Merus and its affiliates, and such other consulting services as Merus may request from time to time (the “**Services**”). Consultant shall provide Services only upon the written instruction of Merus or any of its affiliates. For the avoidance of doubt, the Services do not include services that Consultant may perform as a member of the Board.
- 1.2 Consultant is capable of providing the Services and shall be reasonably available to provide the Services. Consultant shall carry out the Services in an expert and diligent

manner and shall, to the best of his ability, promptly comply with and observe all lawful and reasonable requests given to Consultant by Merus or any of its affiliates pursuant to this Agreement.

1.3 Consultant represents and warrants to Merus that he is under no contractual or other restrictions or obligations that are inconsistent with the execution of this Agreement, or that will interfere with the performance of the Services. Consultant represents and warrants that the execution and performance of this Agreement will not violate any policies or procedures of any other person or entity for which he performs services concurrently with those performed herein.

1.4 Consultant shall comply with all applicable laws and regulations in the performance of the Services.

1.5 Consultant shall not subcontract any work in connection with this Agreement without the prior written consent of Merus.

2. **CONSIDERATION & EXPENSES**

2.1 In full consideration of Consultant's full, prompt, and faithful performance of the Services, Merus agrees to pay to Consultant a fee of \$2,000 for each four-hour day of Services rendered, up to a maximum of \$60,000. Consultant will be paid based on the actual hours spent on the Services.

2.2 In addition to the sum referred to in Clause 2.1, Merus shall reimburse Consultant for reasonable expenses pre-approved by Merus, such as travel, hotel and meal expenses in connection with the Services. Merus shall pay Consultant the amounts due pursuant to Merus's receipt of the written invoices including receipts relating to the expenses. For any expense greater than \$1,000, Consultant must seek prior approval from Merus to secure reimbursement.

2.3 Provided there is no reasonable dispute concerning the invoice raised by Merus, each payment to Consultant shall be made by Merus within thirty (30) days of the date of invoicing.

2.4 Invoices shall contain a specification of hours/days during which the Services are performed and, in reasonable detail, the reasonable expenses pre-approved by Merus and incurred by Consultant.

2.5 The consideration and reimbursement referred to in Clauses 2.1 and 2.2 shall be the sole consideration due to Consultant in connection with the Services and this Agreement. For the avoidance of doubt, such consideration and reimbursement shall be in addition to any compensation Consultant receives for his service as a member of the Board.

2.6 It is Consultant's responsibility to comply with any obligations towards tax and social security authorities that may result from this Agreement. Consultant indemnifies Merus and its affiliates and holds Merus and its affiliates harmless against any taxes, social security premiums, costs, penalties, interest or other liabilities regarding the potential tax and social security consequences resulting from this Agreement.

2.7 The Consultant shall be indemnified by Merus to the fullest extent permitted by applicable law and the organizational documents of Merus, against any losses, damages, liabilities, claims, actions, judgments, costs and expenses (including without limitation, attorneys' fees and expenses) that may be incurred by him in the course of, or in connection with, the performance of the Services. Without limiting the foregoing, for purposes of the Indemnification Agreement, dated as of June 25, 2019, between Merus N.V. and the Consultant, "Corporate Status" shall include the Consultant's service under this Agreement.

3. **TERM**

3.1 This Agreement shall commence on the Effective Date and shall continue for one (1) year from the Effective Date, subject to earlier termination pursuant to clause 3.2.

3.2 This Agreement may be terminated at any time by either Party, and for any reason, upon written notice to the other Party.

3.3 All rights granted to Merus in respect of work performed and services rendered by Consultant and the products of such work and services, and all rights granted to Consultant for payments to be received under this Agreement, which arise prior to the date of termination of this Agreement, shall not be prejudiced or affected by such termination. Termination or expiry of this Agreement under clause 3.1 or 3.2 above shall not affect the accrued rights of the Parties that arose in any way out of this Agreement as at the date of termination or expiry. In particular, but without limitation, the provisions of clauses 3, 4.3, 5, 6 and 7 shall survive this Agreement and shall remain in full force and effect.

3.4 Except as may be required for the performance of Consultant's duties as a member of the Board, Consultant agrees to promptly return, following the termination of this Agreement or upon earlier request by Merus, all drawings, tracings, and written materials in Consultant's possession and supplied by Merus in conjunction with the performance of the Services under this Agreement or generated by Consultant in the performance of the Services under this Agreement.

3.5 For the avoidance of doubt, Consultant shall serve as a member of the Board until Consultant resigns or is no longer a member of the Board pursuant to the terms of the applicable governing documents of Merus N.V. and its affiliates, whether or not Consultant continues to perform Services pursuant to this Agreement.

4. **INDEPENDENT CONTRACTOR**

4.1 This Agreement is a contract for the provision of services. Nothing in this Agreement shall be deemed to make Consultant an employee of Merus or any of its affiliates. Nothing herein shall be construed to create an employer-employee relationship between Merus and Consultant or to entitle Consultant to any benefits provided by Merus to its employees. If Consultant is reclassified by a state or federal agency or

court as an employee, Consultant will become a reclassified employee and will receive no benefits except those mandated by state or federal law, even if by the terms of the benefit plans of Merus or its affiliates in effect at the time of such reclassification Consultant would otherwise be eligible for such benefits. =

- 4.2 Except with respect to Consultant's service as a member of the Board, Consultant shall not have any express or implied right or authority to assume or create any obligations on behalf of, or in the name of, Merus or any of its affiliates, or to bind Merus or any of its affiliates to any contract, agreement or undertaking with any third party. Nothing contained in this Agreement shall be construed or applied to create a partnership, agency, or joint venture relationship between Consultant and Merus or any of its affiliates. Similarly, Consultant shall not state or imply, directly or indirectly, that Consultant is empowered to bind Merus or any of its affiliates without Merus' prior written consent.
- 4.3 Consultant shall not use the name, trade name, trade mark or logo of Merus or any abbreviation or adaptation thereof, in any advertising, trade display, public statement or for any other purposes, without the prior written consent of Merus.
- 4.4 Consultant agrees that while acting as a consultant for Merus (the "**Merus Consultancy**"), neither Consultant nor anyone assisting Consultant will engage in any activities that are adverse to the interests of Merus or any of its affiliates. Reports and other documents generated, or obtained by Consultant in the course of the Merus Consultancy (the "**Consulting Materials**") will be the property of Merus. If authored by Consultant, they will be considered "Works Made For Hire" and all right, title and interest in such works is hereby assigned by Consultant to Merus.

5. **CONFIDENTIALITY**

- 5.1 Consultant shall not during the term of this Agreement or at any time after its termination, without the prior written consent of Merus, disclose¹ to any third party any information, data, inventions, methods, know-how, trade secrets or materials concerning the research and development, products, finances, strategy, business or other affairs of Merus or any of its affiliates or of any client, customer or collaborator thereof, which Consultant learns or obtains in the course of his Services hereunder, including Consultant's work, opinions, conclusions and communications with Merus with respect to this Agreement including any Consulting Materials (the "**Confidential Information**"). Consultant shall keep the Confidential Information confidential and in a secured place. Consultant agrees that the Confidential Information will be covered by the utmost confidentiality to the full extent provided by law and Consultant agrees to do all things necessary to preserve the confidentiality of the Confidential Information, using at least the same degree of care and discretion, but no less than a reasonable degree of care and discretion, in maintaining the confidentiality of the Confidential Information as he uses with his own confidential information.

¹ The term "disclose", "disclosing", "disclosure" or the like, in this Section and throughout this Agreement, shall be deemed to include the disclosure or release of information by written, oral, visual and/or auditory means as well as the provision of access to information.

Consultant shall notify Merus immediately upon Consultant's discovery of any unauthorized disclosure, loss, or compromise of the Confidential Information.

- 5.2 Information disclosed by Merus for which Consultant can establish the following shall not constitute Confidential Information:
- a. at the time of disclosure by Merus, the information is generally available in the public domain;
 - b. after disclosure by Merus, the information becomes generally available in the public domain by publication or otherwise, except by breach of this Agreement by Consultant or breach by any other party under an agreement of confidentiality with Merus;
 - c. by contemporaneous and competent written records, the information was in his possession at the time of disclosure by Merus and was not acquired directly or indirectly from Merus or from any other party under an agreement of confidentiality with Merus;
 - d. by contemporaneous and competent written records, the information was received from an independent source who has a lawful right to disclose the Confidential Information; or
 - e. the information is permitted to be disclosed by prior written approval of Merus.
- 5.3 Consultant shall not during the term of this Agreement use any of the Confidential Information other than as is strictly necessary in performing the Services. Consultant shall not disclose the Confidential Information, or any part thereof, to his affiliates, agents, or employees, except those who need to know the information to perform in accordance with this Agreement and on signed terms of confidentiality at least as restrictive as those set forth herein. Consultant agrees that all documentary material provided to the Consultant by Merus together with all copies thereof must be returned immediately upon request. In addition, any activities that Consultant performs under this Agreement and any conclusions or judgments that Consultant reaches or has reached must be maintained as confidential in the same way. Consultant understands that these confidentiality and non-use restrictions will continue even upon the termination of the consulting work for Merus.
- 5.4 After completion of the Services or termination of this Agreement, whichever occurs earlier, and except as may be required for the performance of Consultant's duties as a member of the Board, Consultant shall have no right to use any Confidential Information and shall promptly return or destroy all Confidential Information, including all documents, correspondence and records containing or developed using Confidential Information. Consultant shall certify he has complied with this Section 5.4 within ten (10) calendar days of Merus' request.
- 5.5 Nothing contained herein shall be deemed to imply or otherwise constitute the grant of any right or license regarding any Confidential Information. The Confidential Information and any intellectual property rights relating to the Confidential

Information shall remain the exclusive property of Merus. Merus makes no representation or warranty as to the Confidential Information, including to the accuracy or completeness thereof. Merus shall have no liability to Consultant arising from the use of the Confidential Information for the Services.

- 5.6 Notwithstanding anything to the contrary herein, nothing in this Agreement is intended to or will be used by Merus in any way to prohibit Consultant from reporting possible violations of U.S. federal law or regulation to any United States governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the U.S. Securities Exchange Act of 1934 or Section 806 of the Sarbanes-Oxley Act of 2002, or any other whistleblower protection provisions of state or federal law or regulation (including the right to receive an award for information provided to any such government agencies). Furthermore, in accordance with 18 U.S.C. § 1833, notwithstanding anything to the contrary in this Agreement: (A) Consultant shall not be in breach of this Agreement and shall not be held criminally or civilly liable under any federal or state trade secret law (x) for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (y) for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal; and (B) if Consultant files a lawsuit for retaliation by Merus or any of its affiliates for reporting a suspected violation of law, Consultant may disclose the trade secret to Consultant's attorney, and may use the trade secret information in the court proceeding, if Consultant files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

6. **ASSIGNMENT OF INTELLECTUAL PROPERTY**

- 6.1 Consultant agrees that all ideas, inventions, discoveries, creations, manuscripts, properties, innovations, improvements, know how, inventions, designs, developments, apparatus, techniques, methods, and formulae that Consultant conceives, makes, develops or improves as a result of performing the Services, whether or not reduced to practice and whether or not patentable, alone or in conjunction with any other party and whether or not at the request or upon the suggestion of Merus (all of the foregoing being hereinafter collectively referred to as the "Inventions"), shall be the sole and exclusive property of Merus. Consultant hereby assigns all right, title and interest in such Inventions.
- 6.2 Consultant shall promptly disclose and deliver to Merus all Inventions or Consulting Materials, including any reports and other documents generated, or obtained by Consultant in the course of the Merus Consultancy, as well as any data, methods, reports, materials, inventions, discoveries, trade secrets, works of authorship and other information, whether or not patentable, that are discovered or developed by Consultant in connection with the performance of the Services. Merus shall be

entitled to make such use of the Consulting Materials during the term of this Agreement and thereafter in whatsoever manner Merus chooses and, without limitation, shall be entitled to incorporate such Consulting Materials or any part of them in any publication or document that may be published by Merus from time to time.

- 6.3 Consultant hereby irrevocably assigns to Merus, free from all encumbrances, all rights, title, and interest, including all intellectual property rights, in or relating to the Consulting Materials, and any ideas, inventions and improvements related thereto. Consultant further represents that all of Consultant's personnel performing any part of the Services are obligated to assign to Consultant all Inventions, Consulting Materials, and intellectual property rights that are necessary to enable Consultant to grant Merus all rights Consultant grants under this Agreement. Consultant agrees to provide Merus the right to inspect Consultant's assignment forms used with its personnel for conformance with United States and ex-United States law.
- 6.4 Consultant hereby appoints Merus as his attorney for the purpose of executing in the name and on behalf of Consultant all such deeds and documents as may be required to fully vest in Merus the rights assigned pursuant to this Section 6.
- 6.5 The assignments contained in this Section 6 shall not be affected by reason of the termination of this Agreement for whatever reason.
- 6.6 Merus shall be under no obligation to apply for or seek to obtain patent, design or other protection in relation to any of the Consulting Materials or Inventions, or in any way to use, exploit or seek to benefit from any of the Consulting Materials or Inventions.
- 6.7 Consultant shall provide such assistance as Merus may reasonably request in any proceedings and/or actions relating to the intellectual property rights in the Consulting Materials or Inventions, which will be at Merus' cost.
- 6.8 Merus acknowledges that any rights assigned to it pursuant to this Section 6 are assigned on an "as is" basis.

7. DATA PROTECTION

- 7.1 Merus and its affiliates may process personal data relating to Consultant for the purposes of and within the framework of this Agreement and the performance of Services thereunder. The personal data collected may include a copy of an identification document, contact details and bank account number. All such personal data shall be handled in a proper and careful manner in accordance with applicable law, including the General Data Protection Regulation (GDPR) and the Dutch Implementation Act GDPR (*Uitvoeringswet Algemene Verordening Gegevensbescherming*).
- 7.2 This encompasses, among other things, that Merus has implemented sufficient technical and organisational measures to ensure the protection of personal data. Personnel or third parties that have access to personal data will be bound by

confidentiality obligations. Further, Consultant has several rights regarding its personal data collected and/or processed by Merus, including the right to access, correction, deletion and portability of Consultant's personal data. For the purpose of the performance of this Agreement, Merus may transfer Consultant's personal data to third parties, provided that there is a legitimate interest in doing so. Where such third parties are located outside the European Economic Area in countries that are not deemed to have an adequate level of data protection, Merus will ensure that sufficient safeguards are in place or that the explicit consent for such transfer is obtained from Consultant. The Workforce Privacy Policy of Merus provides further information on data protection and applies to the processing of the personal data of Consultant by Merus.

7.3 Consultant shall comply with Merus' rules and policies regarding the processing of personal data should it process any personal data on behalf of Merus in performing the Services.

8. MISCELLANEOUS

8.1 Consultant hereby agrees in consideration of Merus' agreement to engage Consultant and pay compensation for the Services rendered to Merus and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, that Consultant shall not, without the prior written consent of Merus, directly or indirectly, consult for, or become an employee of, any company which conducts business in the Field of Interest anywhere in the world. As used herein, the term "Field of Interest" shall mean any business or enterprise that develops, manufactures, applies, designs, markets, licenses, sells, uses or provides any therapeutic drug relating to the treatment of NRG1 fusion positive maladies. The limitations on competition contained in this Section 8.1 shall continue during the time that Consultant performs any services for Merus (whether pursuant to this Agreement or otherwise and including services performed on the Board of Directors of Merus N.V.), and during the period beginning on the date Consultant no longer performs services for Merus or any of its affiliates and ending on the date twelve (12) months thereafter. If any part of this section should be determined by a court of competent jurisdiction to be unreasonable in duration, geographic area, or scope, then this Section 8.1 is intended to and shall extend only for such period of time, in such area and with respect to such activity as is determined to be reasonable.

8.2 This Agreement constitutes the entire agreement between the Parties with regard to the subject matter hereof, and replaces and supersedes all other agreements or understandings relating to the subject matter hereof, whether written or oral. No modification, amendment, supplement to, or extension of this Agreement shall have any force or effect unless reduced to writing and signed by each Party.

- 8.3 Consultant warrants to Merus that he is entitled and authorized to enter into this Agreement and perform his obligations hereunder, without breaching any other existing contractual obligations he may have.
- 8.4 Consultant warrants to Merus that he shall conduct his Services in accordance with uncompromising honesty and integrity and that it shall comply with the *Code of Business Conduct and Ethics*, as published on Merus N.V.'s website (<http://www.merus.nl> à Investors & Media à Corporate Governance à Governance Documents à Code of Business Conduct and Ethics).
- 8.5 All notices, documentation and communications shall be in English and sent by personal delivery, pre-paid registered mail, or overnight courier, to the relevant address set out below and shall be deemed to have been given on the date of receipt. Parties shall also send each other notice through email at the email addresses set out below.

If to Consultant at the last known email address of
Consultant

[email]

Legal@merus.nl (or to another officer at Merus N.V.)

- 8.6 This Agreement, and all claims and/or causes of action (whether in contract, tort, or statute) that may be based upon, arise out of, or relate to this Agreement, or the negotiation, execution, or performance of this Agreement (including any claim or cause of action based upon, arising out of, or related to any representation or warranty made in or in connection with this Agreement), shall be governed by, and enforced in accordance with, the laws of the State of Delaware without giving effect to any laws, rules, or provisions that would cause the application of the laws, rules, or provisions of any other jurisdiction. If any dispute arises out of or in connection with this Agreement, the Parties will themselves endeavor to settle such dispute amicably. If the Parties fail to reach an amicable settlement of the dispute within a reasonable period of time, such dispute shall, to the exclusion of all others, be referred exclusively to a court of applicable jurisdiction in the Commonwealth of Massachusetts and the Parties agree that judgments of the Massachusetts courts of applicable jurisdiction are enforceable in any court having jurisdiction over the Parties.
- 8.7 This Agreement has been prepared in the English language and the English language shall control its interpretation.
- 8.8 No claim, right or remedy of a Party under this Agreement shall be deemed to be waived in whole or in part unless such waiver is in writing and signed. No relaxation, forbearance, delay or indulgence by a Party in enforcing any of the provisions of this

Agreement shall prejudice, affect or restrict the rights of that party under this Agreement, nor shall any waiver by a Party of a violation of this Agreement operate as a waiver of any subsequent or continuing violation.

- 8.9 If any provision of this Agreement is held to be illegal, invalid or unenforceable, (a) that provision shall be deemed amended to achieve as nearly as possible the same effect as the original provision, and (b) the legality, validity, and enforceability of the remaining provisions of this Agreement shall not be affected or impaired thereby.
- 8.10 This Agreement may be executed electronically (by PDF) and/or in counterparts, each of which shall be deemed an original, and all of which together, shall constitute one and the same instrument.
- 8.11 All rights attaching to Merus and Consultant under this Agreement will bind and inure to the benefit of their respective successors, heirs, executors and administrators and permitted assigns. Consultant shall not assign or delegate his obligations under this Agreement either in whole or in part without the prior written consent of Merus.
- 8.12 The section headings herein are intended for convenience of reference only and are not intended to affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the Parties have caused this document to be executed by their duly authorized representatives as of the Effective Date.

Merus US, Inc.

Victor Sandor, M.D.

/s/ Peter B Silverman

/s/ V Sandor

Name: Peter B. Silverman

Name: Victor Sandor

Title: EVP, General Counsel

Title:

Date: June 8, 2020

Date: 06/05/2020

EMPLOYMENT AGREEMENT

This Employment Agreement (this “Agreement”), dated as of July 2, 2020, is made by and between Merus US, Inc., a Delaware corporation (together with any successors or assigns, the “Company”), and Andrew Joe (the “Executive”) (collectively referred to herein as the “Parties” or individually referred to as a “Party”).

RECITALS

- (A) It is the desire of the Company to assure itself of the services of Executive on the terms set forth in this Agreement beginning on and following a date to be mutually agreed upon by the Company and Executive, which date shall be no later than July 27, 2020. The actual date on which Executive begins Executive’s employment with the Company is referred to herein as the “Effective Date”.
- (B) The Company wishes to secure the services of Executive upon the terms and conditions hereinafter set forth, and Executive wishes to render such services to the Company upon the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements set forth below, the Parties hereto agree as follows:

1. Employment.

(a) General. Effective as of the Effective Date, the Company shall employ Executive and Executive shall commence employment with the Company, for the period and in the position set forth in this Section 1, and subject to the other terms and conditions herein provided.

At-Will Employment. The Company and Executive acknowledge that Executive’s employment is and shall continue to be at-will, as defined under applicable law, and that Executive’s employment with the Company may be terminated by either Party at any time for any or no reason (subject to the notice requirements of Section 3(b)). This “at-will” nature of Executive’s employment shall remain unchanged during Executive’s tenure as an employee and may not be changed, except in an express writing signed by Executive and a duly authorized officer of the Company or of Merus N.V., a Dutch public limited liability company (“Parent”), as applicable. If Executive’s employment terminates for any reason, Executive shall not be entitled to any payments, benefits, damages, award or compensation other than as provided in this Agreement or otherwise agreed to in writing by a duly authorized officer of the Company, a duly authorized officer of Parent or as provided by applicable law. The period of Executive’s employment by the Company beginning on the Effective Date shall be referred to herein as the “Term”.

(c) Position; Duties and Location. Executive shall serve as Senior Vice President of Clinical Development and Chief Medical Officer, with such responsibilities, duties and authority normally associated with such positions and as may from time to time be assigned to Executive by the Chief Executive Officer of Parent or the Board of Directors of Parent or an authorized

committee thereof (in either case, the “Board”). Executive’s normal place of work shall be at the Company’s office in the Boston, Massachusetts metropolitan area. Executive shall devote substantially all of Executive’s working time and efforts to the business and affairs of the Company (which shall include service to its affiliates, if applicable) and shall not engage in outside business activities (including serving on outside boards or committees) without the consent of the Board, provided that Executive shall be permitted to (i) manage Executive’s personal, financial and legal affairs, (ii) participate in trade associations, and (iii) serve on the board of directors of not-for-profit or tax-exempt charitable organizations, in each case, subject to compliance with this Agreement and provided that such activities do not materially interfere with Executive’s performance of Executive’s duties and responsibilities hereunder. Executive agrees to observe and comply with the rules and policies of the Company and Parent as adopted by the Company or Parent, as applicable, from time to time, in each case as amended from time to time, as set forth in writing, and as delivered or made available to Executive (each, a “Policy”).

2. **Compensation and Related Matters.**

(a) **Annual Base Salary.** During the Term, Executive shall receive a base salary at a rate of \$436,000 per annum, which shall be paid in accordance with the customary payroll practices of the Company and shall be pro-rated for partial years of employment. Such annual base salary shall be reviewed (and may be upwardly adjusted) from time to time by the Board (such annual base salary, as it may be upwardly adjusted from time to time, the “Annual Base Salary”).

(b) **Bonus.** During the Term, Executive will be eligible to participate in an annual incentive program established by the Board. Executive’s annual incentive compensation under such incentive program (the “Annual Bonus”) shall be targeted at 40% of Executive’s Annual Base Salary. Such target bonus shall be reviewed (and may be adjusted) from time to time by the Board (such target bonus, as it may be adjusted from time to time, the “Target Bonus”). The Annual Bonus payable under the incentive program shall be based on the achievement of performance goals to be determined by the Board. The payment of any Annual Bonus pursuant to the incentive program shall be subject to Executive’s continued employment with the Company through the date of payment, except as provided in Section 4(b).

(c) **Equity Awards.** Subject to the approval of the Board following the Effective Date, Executive will be granted an option to purchase 107,000 common shares of Parent with an exercise price per share equal to the Fair Market Value (as defined in the Merus N.V. 2016 Incentive Award Plan (the “Plan”) of Parent’s common shares on the date of grant (the “Option”). Subject to Executive’s continued employment with Parent or its subsidiaries, including the Company, the Option shall vest over a four-year period, with 25% vesting on the first anniversary of the Effective Date and the remaining 75% vesting in 36 equal monthly installments following the first anniversary of the Effective Date. The Option will be subject to the terms of the Plan and an option award agreement on Parent’s standard form.

(d) **Benefits.** During the Term, Executive shall be eligible to participate in employee benefit plans, programs and arrangements of the Company (including medical, dental, vision, life insurance, disability insurance and defined contribution 401(k) plan) made available to other

similarly-situated employees of the Company, consistent with the terms thereof and as such plans, programs and arrangements may be amended from time to time.

(e) Vacation. During the Term, Executive shall be entitled to four (4) weeks of paid personal leave in accordance with the Company's paid time off Policies. Any vacation shall be taken at the reasonable and mutual convenience of the Company and Executive.

(f) Business Expenses. During the Term, the Company shall reimburse Executive for all reasonable travel and other business expenses incurred by Executive in the performance of Executive's duties to the Company in accordance with the Company's expense reimbursement Policy.

(g) Key Person Insurance. At any time during the Term, the Company and its affiliates shall have the right to insure the life of Executive for the Company's and its affiliates' benefit. The Company shall have the right to determine the amount of insurance and the type of policy. Executive shall reasonably cooperate with the Company in obtaining such insurance by submitting to physical examinations, by supplying all information reasonably required by any insurance carrier, and by executing all necessary documents reasonably required by any insurance carrier, provided that any information provided to an insurance company or broker shall not be provided to the Company without the prior written authorization of Executive. Executive shall incur no financial obligation by executing any required document, and shall have no interest in any such policy.

(h) Housing Allowance. During the Term, the Company shall reimburse Executive up to \$1,200 per month for the cost of Executive's reasonable housing expenses incurred in the Boston, Massachusetts area, subject to any required tax withholding, for the period beginning on the Effective Date and ending on the date in which Executive secures permanent housing in the greater Boston, Massachusetts area, but in no event for a period greater than twelve (12) months following the Effective Date.

(i) Signing Bonus. Executive will be eligible to receive a signing bonus in an amount equal to \$178,000, less applicable taxes and deductions (the "Signing Bonus"), on the terms and conditions set forth in this Section 2(i). Subject to Executive's continued employment with the Company through the applicable payment date, the Signing Bonus will be paid in three instalments as follows: (i) \$71,200 will be paid to Executive during the Company's regular pay cycle that occurs within 45 days of the Effective Date; (ii) \$53,400 will be paid to Executive during the Company's first regular pay cycle that occurs following the first anniversary of the Effective Date; and (iii) \$53,400 will be paid to Executive during the Company's first regular pay cycle that occurs following the second anniversary of the Effective Date. Notwithstanding the foregoing, if (A) Executive's employment is terminated by the Company for Cause (as defined below) or by Executive other than for Good Reason (as defined below), or (B) Executive's employment is terminated by the Company without Cause or by Executive for Good Reason and the Release (as defined below) does not become effective, Executive will repay the Company the full amount of any portion of the Signing Bonus paid to Executive in the thirty-six month period prior to such termination or resignation, and the Company will be entitled (but not required) to deduct the amount of any such repayment obligations from any amounts otherwise payable to Executive by the Company or any of its affiliates.

3. Termination.

(a) Circumstances. Executive's employment hereunder may be terminated by the Company or Executive, as applicable, without any breach of this Agreement, at any time, under the following circumstances:

(i) *Death.* Executive's employment hereunder shall terminate upon Executive's death.

(ii) *Disability.* If Executive has incurred a Disability, as defined below, the Company may terminate Executive's employment.

(iii) *Termination for Cause.* The Company may terminate Executive's employment for Cause, as defined below.

(iv) *Termination without Cause.* The Company may terminate Executive's employment without Cause.

(v) *Resignation from the Company for Good Reason.* Executive may resign Executive's employment with the Company for Good Reason, as defined below.

(vi) *Resignation from the Company Without Good Reason.* Executive may resign Executive's employment with the Company for any reason other than Good Reason or for no reason.

(b) Notice of Termination. Any termination of Executive's employment by the Company or by Executive under this Section 3 (other than termination pursuant to Section 3(a)(i)) shall be communicated by a written notice to the other Party hereto (i) indicating the specific termination provision in this Agreement relied upon, (ii) setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, if applicable, and (iii) specifying a Date of Termination which, if submitted by Executive, shall be at least thirty (30) days following the date of such notice (a "Notice of Termination"); *provided, however*, that in the event that Executive delivers a Notice of Termination to the Company, the Company may, in its sole discretion, change the Date of Termination to any date that occurs on or following the date of the Company's receipt of such Notice of Termination and is prior to the date specified in such Notice of Termination. A Notice of Termination submitted by the Company may provide for a Date of Termination on the date Executive receives the Notice of Termination, or any date thereafter elected by the Company in its sole discretion. The failure by the Company or Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause or Good Reason shall not waive any right of such Party hereunder or preclude such Party from asserting such fact or circumstance in enforcing such Party's rights hereunder.

(c) Company Obligations upon Termination. Upon termination of Executive's employment pursuant to this Section 3, Executive (or Executive's estate) shall be entitled to receive the sum of: (i) the portion of Executive's Annual Base Salary earned through the Date of Termination, but not yet paid to Executive; (ii) any expenses owed to Executive pursuant to

Section 2(f); and (iii) any amount accrued and arising from Executive's participation in, or benefits accrued under any employee benefit plans, programs or arrangements, which amounts shall be payable in accordance with the terms and conditions of such employee benefit plans, programs or arrangements (collectively, the "Company Arrangements"). Except as otherwise expressly required by law (e.g., COBRA) or as specifically provided herein, all of Executive's rights to salary, severance, benefits, bonuses and other compensatory amounts hereunder (if any) shall cease upon the termination of Executive's employment hereunder. In the event that Executive's employment is terminated by the Company for any reason, Executive's sole and exclusive remedy shall be to receive the payments and benefits described in this Section 3(c) or Section 4, as applicable

(d) Deemed Resignation. Upon termination of Executive's employment for any reason, Executive shall be deemed to have resigned from all offices and directorships, if any, then held with the Company, Parent or any of their subsidiaries or affiliates.

4. Severance Payments.

(a) Termination for Cause, or Termination Upon Death, Disability or Resignation from the Company Without Good Reason. If Executive's employment shall terminate as a result of Executive's death pursuant to Section 3(a)(i) or Disability pursuant to Section 3(a)(ii), pursuant to Section 3(a)(iii) for Cause, or pursuant to Section 3(a)(vi) for Executive's resignation from the Company without Good Reason, then Executive shall not be entitled to any severance payments or benefits, except as provided in Section 3(c).

(b) Termination without Cause or Resignation from the Company for Good Reason. If Executive's employment is terminated by the Company without Cause pursuant to Section 3(a)(iv) or pursuant to Section 3(a)(v) due to Executive's resignation for Good Reason, in either case, which termination does not occur within twelve (12) months following the date of a Change in Control, then, subject to Executive signing on or before the 21st day following Executive's Separation from Service (as defined below), and not revoking, a release of claims in substantially the form attached hereto as Exhibit A (the "Release"), and Executive's continued compliance with Section 5, Executive shall receive, in addition to payments and benefits set forth in Section 3(c), the following:

(i) an amount in cash equal to one (1) times the Annual Base Salary, payable in the form of salary continuation in regular installments over the twelve (12) month period following the date of Executive's Separation from Service (the "Severance Period") in accordance with the Company's customary payroll practices;

(ii) any unpaid Annual Bonus earned by Executive for the year prior to the year in which the Date of Termination occurs, as determined by the Board based upon actual performance achieved, which Annual Bonus, if any, shall be paid to Executive when bonuses for such year are paid to actively employed senior executives of the Company, but in no event later than the end of the year in which the Date of Termination occurs; and

(iii) if Executive elects to receive continued medical, dental or vision coverage under one or more of the Company's group healthcare plans pursuant to the Consolidated

Omnibus Budget Reconciliation Act of 1985, as amended (“COBRA”), the Company shall directly pay, or reimburse Executive for, the COBRA premiums for Executive and Executive’s covered dependents under such plans during the period commencing on Executive’s Separation from Service and ending upon the earliest of (X) the last day of the Severance Period, (Y) the date that Executive and/or Executive’s covered dependents become no longer eligible for COBRA or (Z) the date Executive becomes eligible to receive healthcare coverage from a subsequent employer (and Executive agrees to promptly notify the Company of such eligibility). Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law or incurring an excise tax (including, without limitation, by reason of Section 2716 of the Public Health Service Act), the Company shall, in lieu thereof, provide to Executive a taxable monthly payment in an amount equal to the monthly COBRA premium that Executive would be required to pay to continue Executive’s and Executive’s covered dependents’ group health coverage in effect on the Date of Termination (which amount shall be based on the premium for the first month of COBRA coverage), less the amount the Executive would have had to pay to receive group health coverage for Executive and Executive’s covered dependents based on the cost sharing levels in effect on the Date of Termination, which payments shall be made regardless of whether Executive elects COBRA continuation coverage and shall commence in the month following the month in which the Date of Termination occurs and shall end on the earlier of (X) the last day of the Severance Period, (Y) the date that Executive and/or Executive’s covered dependents become no longer eligible for COBRA or (Z) the date Executive becomes eligible to receive healthcare coverage from a subsequent employer.

(c) Change in Control. In lieu of the payments and benefits set forth in Section 4(b), in the event Executive’s employment is terminated by the Company without Cause pursuant to Section 3(a)(iv) or pursuant to Section 3(a)(v) due to Executive’s resignation for Good Reason, in either case, on or within twelve (12) months following the date of a Change in Control, then, subject to Executive signing on or before the 21st day following Executive’s Separation from Service, and not revoking, the Release, and Executive’s continued compliance with Section 5, Executive shall receive, in addition to the payments and benefits set forth in Section 3(c), the following:

(i) an amount in cash equal to one (1) times the sum of (A) the Annual Base Salary and (B) the Target Bonus, payable in a lump sum on the First Payment Date;

(ii) the payments and benefits provided under Section 4(b)(ii) and Section 4(b)(iii); and

(iii) provided that the Date of Termination occurs more than 12 months following the date Executive commenced employment with the Company, immediate vesting of all unvested equity or equity-based awards held by Executive under any equity compensation plans of Parent that vest solely based on the passage of time (with any such awards that vest in whole or in part based on the attainment of performance-vesting conditions being governed by the terms of the applicable award agreement).

5. Employee Proprietary Information and Inventions Assignment Agreement.

As a condition to the effectiveness of this Agreement, Executive will execute and deliver to the Company contemporaneously herewith an Employee Proprietary Information and Inventions Assignment Agreement (the "Proprietary Information Agreement"), which Proprietary Information Agreement contains certain non-competition, non-solicitation, non-disclosure and assignment of inventions provisions in favor of the Company and Parent. Executive agrees to abide by the terms of the Proprietary Information Agreement, which are hereby incorporated by reference into this Agreement. Executive acknowledges that the provisions of the Proprietary Information Agreement will survive the termination of Executive's employment and the termination of the Term for the periods set forth in the Proprietary Information Agreement.

6. Assignment and Successors.

The Company may assign its rights and obligations under this Agreement to any of its affiliates, including, without limitation, any successor to all or substantially all of the business or the assets of the Company (by merger or otherwise), and may assign or encumber this Agreement and its rights hereunder as security for indebtedness of the Company and its affiliates. This Agreement shall be binding upon and inure to the benefit of the Company, Executive and their respective successors, assigns, personnel and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable. None of Executive's rights or obligations may be assigned or transferred by Executive, other than Executive's rights to payments hereunder, which may be transferred only by will or operation of law. Notwithstanding the foregoing, Executive shall be entitled, to the extent permitted under applicable law and applicable Company Arrangements, to select and change a beneficiary or beneficiaries to receive compensation hereunder following Executive's death by giving written notice thereof to the Company.

7. Certain Definitions.

(a) Cause. The Company shall have "Cause" to terminate Executive's employment hereunder upon:

(i) Executive's failure to (A) substantially perform Executive's duties with the Company (other than any such failure resulting from Executive's Disability) or (B) comply with, in any material respect, any of the Company's Policies; provided that such "Cause" shall be deemed to occur only after the Company has given notice thereof to the Executive specifying in reasonable detail the conduct constituting "Cause," and, to the extent curable and correctable and the failure is not another breach after a prior cure period, the Executive fails to cure and correct his conduct within thirty (30) days after such notice;

(ii) the Board's determination that Executive failed in any material respect to carry out or comply with any lawful and reasonable directive of the Board; provided that such "Cause" shall be deemed to occur only after the Company has given notice thereof to the Executive specifying in reasonable detail the conduct constituting "Cause," and, to the extent

curable and correctable and the failure is not another breach after a prior cure period, the Executive fails to cure and correct his conduct within thirty (30) days after such notice;

(iii) Executive's breach of a material provision of this Agreement or the Proprietary Information Agreement; provided that such "Cause" shall be deemed to occur only after the Company has given notice thereof to the Executive specifying in reasonable detail the conduct constituting "Cause," and, to the extent curable and correctable and the failure is not another breach after a prior cure period, the Executive fails to cure and correct his conduct within thirty (30) days after such notice;

(iv) Executive's conviction, plea of no contest, plea of nolo contendere, or imposition of unadjudicated probation for any felony or crime involving moral turpitude;

(v) Executive's unlawful use (including being under the influence) or possession of illegal drugs on the Company's (or any of its affiliate's) premises or while performing Executive's duties and responsibilities under this Agreement; or

(vi) Executive's commission of an act of fraud, embezzlement, misappropriation, willful misconduct, or breach of fiduciary duty against the Company or any of its affiliates.

(b) Change in Control. "Change in Control" shall mean and include each of the following:

(i) A transaction or series of related transactions (other than an offering of common shares of Parent to the general public through a registration statement filed with the Securities and Exchange Commission or a transaction or series of related transactions that meets the requirements of clauses (A) and (B) of subsection (ii) below) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) (other than the Parent, any of its subsidiaries, an employee benefit plan maintained by the Parent or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Parent) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Parent possessing more than 50% of the total combined voting power of the Parent's securities outstanding immediately after such acquisition; or

(ii) The consummation by the Parent (whether directly involving the Parent or indirectly involving the Parent through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Parent's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(A) which results in the Parent's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Parent or the person that, as a result of the transaction, controls, directly or indirectly, the Parent or owns, directly or indirectly, all or substantially all of the Parents assets or

otherwise succeeds to the business of the Parent (the Parent or such person, the “Successor Entity”) directly or indirectly, at least a majority of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction, and

(B) after which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (B) as beneficially owning 50% or more of the combined voting power of the Successor Entity solely as a result of the voting power held in the Parent prior to the consummation of the transaction.

Notwithstanding the foregoing, in no event shall the transaction or event described in subsection (i) or (ii) constitute a Change in Control for purposes of this Agreement unless such transaction also constitutes a “change in control event,” as defined in Treasury Regulation Section 1.409A-3(i)(5).

(c) Code. “Code” shall mean the Internal Revenue Code of 1986, as amended, and the regulations and guidance promulgated thereunder.

(d) Date of Termination. “Date of Termination” shall mean (i) if Executive’s employment is terminated by Executive’s death, the date of Executive’s death; or (ii) if Executive’s employment is terminated pursuant to Section 3(a)(ii) – (vi) either the date indicated in the Notice of Termination or the date specified by the Company pursuant to Section 3(b), whichever is earlier.

(e) Disability. “Disability” shall mean, at any time the Company or any of its affiliates sponsors a long-term disability plan for the Company’s employees, “disability” as defined in such long-term disability plan for the purpose of determining a participant’s eligibility for benefits, provided, however, if the long-term disability plan contains multiple definitions of disability, “Disability” shall refer to that definition of disability which, if Executive qualified for such disability benefits, would provide coverage for the longest period of time. The determination of whether Executive has a Disability shall be made by the person or persons required to make disability determinations under the long-term disability plan. At any time the Company does not sponsor a long-term disability plan for its employees, “Disability” shall mean Executive’s inability to perform, with or without reasonable accommodation, the essential functions of Executive’s position hereunder for a total of three months during any six-month period as a result of incapacity due to mental or physical illness as determined by a physician selected by the Company or its insurers and acceptable to Executive or Executive’s legal representative, with such agreement as to acceptability not to be unreasonably withheld or delayed. Any refusal by Executive to submit to a medical examination for the purpose of determining Disability shall be deemed to constitute conclusive evidence of Executive’s Disability.

(f) Good Reason. For the sole purpose of determining Executive’s right to severance payments as described above, Executive’s resignation will be for “Good Reason” if Executive resigns within ninety days after any of the following events, unless Executive consents to the

applicable event: (i) a decrease in Executive's Annual Base Salary, other than a reduction in Annual Base Salary of less than 10% that is implemented in connection with a contemporaneous reduction in annual base salaries affecting other senior executives of the Company and the Parent, (ii) a material decrease in Executive's authority or areas of responsibility as are commensurate with Executive's title or position (other than in connection with a corporate transaction where Executive continues to hold the position referenced in Section 1(c) above with respect to the Parent's business, substantially as such business exists prior to the date of consummation of such corporate transaction, but does not hold such position with respect to the successor corporation), or (iii) the relocation of Executive's primary office to a location more than 50 miles from the Boston, Massachusetts metropolitan area. Notwithstanding the foregoing, no Good Reason will have occurred unless and until Executive has: (i) provided the Company and Parent, within 60 days of Executive's knowledge of the occurrence of the facts and circumstances underlying the Good Reason event, written-notice stating with specificity the applicable facts and circumstances underlying such finding of Good Reason; and (ii) provided the Company or Parent, as applicable, with an opportunity to cure the same within 30 days after the receipt of such notice.

(g) Person. "Person" means any individual or any corporation, limited liability company, general partnership, limited partnership, venture, trust, business trust, unincorporated association, estate or other entity.

8. Parachute Payments.

(a) Notwithstanding any other provisions of this Agreement or any Parent equity plan or agreement, in the event that any payment or benefit by the Company, Parent or otherwise to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (all such payments and benefits, including the payments and benefits under Section 4(b) or Section 4(c) hereof, being hereinafter referred to as the "Total Payments"), would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Total Payments shall be reduced (in the order provided in Section 8(b)) to the extent necessary to avoid the imposition of the Excise Tax on the Total Payments, but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments), is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the amount of the Excise Tax to which Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments).

(b) The Total Payments shall be reduced in the following order: (i) reduction on a pro-rata basis of any cash severance payments that are exempt from Section 409A of the Code ("Section 409A"), (ii) reduction on a pro-rata basis of any non-cash severance payments or benefits that are exempt from Section 409A, (iii) reduction on a pro-rata basis of any other payments or benefits that are exempt from Section 409A, and (iv) reduction of any payments or benefits otherwise payable to Executive on a pro-rata basis or such other manner that complies

with Section 409A; provided, in case of clauses (ii), (iii) and (iv), that reduction of any payments attributable to the acceleration of vesting of equity awards shall be first applied to equity awards that would otherwise vest last in time.

(c) The Company or Parent will select an accounting firm or consulting group with experience in performing calculations regarding the applicability of Section 280G of the Code and the Excise Tax (the “Independent Advisors”) to make determinations regarding the application of this Section 8. For purposes of such determinations, no portion of the Total Payments shall be taken into account which, in the opinion of the Independent Advisors, (i) does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) or (ii) constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the “base amount” (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation. The costs of obtaining such determination and all related fees and expenses (including related fees and expenses incurred in any later audit) shall be borne by the Company or Parent, as applicable.

(d) In the event it is later determined that to implement the objective and intent of this Section 8, a greater reduction in the Total Payments should have been made, the excess amount shall be returned promptly by Executive to the Company or Parent, as applicable.

9. Miscellaneous Provisions.

(a) Governing Law. This Agreement shall be governed, construed, interpreted and enforced in accordance with its express terms, and otherwise in accordance with the substantive laws of the Commonwealth of Massachusetts without reference to the principles of conflicts of law of the Commonwealth of Massachusetts or any other jurisdiction, and where applicable, the laws of the United States.

(b) Validity. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(c) Notices. Any notice, request, claim, demand, document and other communication hereunder to any Party shall be effective upon receipt (or refusal of receipt) and shall be in writing and delivered personally or sent by facsimile or certified or registered mail, postage prepaid, as follows:

(i) If to the Company or the Parent, the General Counsel of the Parent at its headquarters,

(ii) If to Executive, at the last address that the Company or the Parent has in its personnel records for Executive, or

(iii) At any other address as any Party shall have specified by notice in writing to the other Party.

(d) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement. Signatures delivered by facsimile, PDF or email shall be deemed effective for all purposes.

(e) Entire Agreement. The terms of this Agreement and the Proprietary Information Agreement are intended by the Parties to be the final expression of their agreement with respect to the subject matter hereof and thereof and supersede all prior understandings and agreements, whether written or oral, including, without limitation, any offer letter between Executive, the Company and/or Parent. The Parties further intend that this Agreement and the Proprietary Information Agreement shall constitute the complete and exclusive statement of their terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceeding to vary the terms of this Agreement or the Proprietary Information Agreement.

(f) Amendments; Waivers. This Agreement may not be modified, amended, or terminated except by an instrument in writing, signed by Executive and a duly authorized officer of the Parent or the Company. By an instrument in writing similarly executed, Executive or a duly authorized officer of the Company or the Parent may waive compliance by the other Party with any specifically identified provision of this Agreement that such other Party was or is obligated to comply with or perform; *provided, however*, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure. No failure to exercise and no delay in exercising any right, remedy, or power hereunder preclude any other or further exercise of any other right, remedy, or power provided herein or by law or in equity.

(g) No Inconsistent Actions. The Parties hereto shall not voluntarily undertake or fail to undertake any action or course of action inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the Parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.

(h) Construction. This Agreement shall be deemed drafted equally by both the Parties. Its language shall be construed as a whole and according to its fair meaning. Any presumption or principle that the language is to be construed against any Party shall not apply. The headings in this Agreement are only for convenience and are not intended to affect construction or interpretation. Any references to paragraphs, subparagraphs, sections or subsections are to those parts of this Agreement, unless the context clearly indicates to the contrary. Also, unless the context clearly indicates to the contrary, (a) the plural includes the singular and the singular includes the plural; (b) “and” and “or” are each used both conjunctively and disjunctively; (c) “any,” “all,” “each,” or “every” means “any and all,” and “each and every”; (d) “includes” and “including” are each “without limitation”; (e) “herein,” “hereof,” “hereunder” and other similar compounds of the word “here” refer to the entire Agreement and not to any particular paragraph, subparagraph, section or subsection; and (f) all pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the entities or persons referred to may require.

(i) Arbitration. Any controversy, claim or dispute arising out of or relating to this Agreement, shall be settled solely and exclusively by a binding arbitration process administered by JAMS/Endispute in Boston, Massachusetts. Such arbitration shall be conducted in

accordance with the then-existing JAMS/Endispute Rules of Practice and Procedure, with the following exceptions if in conflict: (a) one arbitrator who is a retired judge shall be chosen by JAMS/Endispute; (b) each Party to the arbitration will pay one-half of the expenses and fees of the arbitrator, together with other expenses of the arbitration incurred or approved by the arbitrator; and (c) arbitration may proceed in the absence of any Party if written notice (pursuant to the JAMS/Endispute rules and regulations) of the proceedings has been given to such Party. Each Party shall bear its own attorneys' fees and expenses; provided that the arbitrator may assess the prevailing Party's fees and costs against the non-prevailing Party as part of the arbitrator's award. The Parties agree to abide by all decisions and awards rendered in such proceedings. Such decisions and awards rendered by the arbitrator shall be final and conclusive. All such controversies, claims or disputes shall be settled in this manner in lieu of any action at law or equity; provided, however, that nothing in this subsection shall be construed as precluding the bringing an action for injunctive relief or specific performance as provided in this Agreement or the Proprietary Information Agreement. This dispute resolution process and any arbitration hereunder shall be confidential and neither any Party nor the neutral arbitrator shall disclose the existence, contents or results of such process without the prior written consent of all Parties, except where necessary or compelled in a Court to enforce this arbitration provision or an award from such arbitration or otherwise in a legal proceeding. If JAMS/Endispute no longer exists or is otherwise unavailable, the Parties agree that the American Arbitration Association ("AAA") shall administer the arbitration in accordance with its then-existing rules as modified by this subsection. In such event, all references herein to JAMS/Endispute shall mean AAA.

(j) Enforcement. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the Term, such provision shall be fully severable; this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a portion of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

(k) Withholding. The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, state, local or foreign withholding or other taxes or charges which the Company is required to withhold. The Company shall be entitled to rely on an opinion of counsel if any questions as to the amount or requirement of withholding shall arise.

(l) Survival. Notwithstanding anything to the contrary in this Agreement, the provisions of Sections 5 through 9 will survive the termination of Executive's employment and the expiration or termination of the Term.

(m) Section 409A.

(i) *General*. The intent of the Parties is that the payments and benefits under this Agreement comply with or be exempt from Section 409A and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith.

(ii) *Separation from Service.* Notwithstanding anything in this Agreement to the contrary, any compensation or benefits payable under this Agreement that are designated under this Agreement as payable upon Executive's termination of employment shall be payable only upon Executive's "separation from service" with the Company within the meaning of Section 409A (a "Separation from Service") and, except as provided below, any such compensation or benefits described in Sections 4(b) and 4(c) shall not be paid, or, in the case of installments, shall not commence payment, until the 30th day following Executive's Separation from Service (the "First Payment Date"). Any installment payments that would have been made to Executive during the 30-day period immediately following Executive's Separation from Service but for the preceding sentence shall be paid to Executive on the First Payment Date and the remaining payments shall be made as provided in this Agreement.

(iii) *Specified Employee.* Notwithstanding anything in this Agreement to the contrary, if Executive is deemed by the Company at the time of Executive's Separation from Service to be a "specified employee" for purposes of Section 409A, to the extent delayed commencement of any portion of the benefits to which Executive is entitled under this Agreement is required in order to avoid a prohibited distribution under Section 409A, such portion of Executive's benefits shall not be provided to Executive prior to the earlier of (i) the expiration of the 6-month period measured from the date of Executive's Separation from Service with the Company or (ii) the date of Executive's death. Upon the first business day following the expiration of the applicable Section 409A period, all payments deferred pursuant to the preceding sentence shall be paid in a lump sum to Executive (or Executive's estate or beneficiaries), and any remaining payments due to Executive under this Agreement shall be paid as otherwise provided herein.

(iv) *Expense Reimbursements.* To the extent that any reimbursements under this Agreement are subject to Section 409A, any such reimbursements payable to Executive shall be paid to Executive no later than December 31 of the year following the year in which the expense was incurred, provided that Executive submits Executive's reimbursement request promptly following the date the expense is incurred. The amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year, other than medical expenses referred to in Section 105(b) of the Code, and Executive's right to reimbursement under this Agreement will not be subject to liquidation or exchange for another benefit.

(v) *Installments.* Executive's right to receive any installment payments under this Agreement, including without limitation any continuation of salary payments that are payable on Company payroll dates, shall be treated as a right to receive a series of separate payments and, accordingly, each such installment payment shall at all times be considered a separate and distinct payment as permitted under Section 409A. Except as otherwise permitted under Section 409A, no payment hereunder shall be accelerated or deferred unless such acceleration or deferral would not result in additional tax or interest pursuant to Section 409A.

10. Executive Acknowledgement.

Executive acknowledges that Executive has read and understands this Agreement, is fully aware of its legal effect, has not acted in reliance upon any representations or promises made by

the Company other than those contained in writing herein, and has entered into this Agreement freely based on Executive's own judgment.

11. Third Party Beneficiary Rights.

The Parent has third party beneficiary rights to the terms of this Agreement applicable to the Company.

[Signature Page Follows]

IN WITNESS WHEREOF, the persons below have executed this Agreement on the date and year first above written.

PARENT

By: /s/ S A Lundberg
Name: Sven (Bill) Lundberg
Title: President, CEO

COMPANY

By: /s/ S A Lundberg
Name: Sven (Bill) Lundberg
Title: President, CEO

EXECUTIVE

By: /s/ Andrew Joe 7/2/2020
Andrew Joe

EXHIBIT A**Separation Agreement and Release**

This Separation Agreement and Release ("Agreement") is made by and between Andrew Joe ("Executive") and Merus US, Inc. (the "Company") (collectively referred to as the "Parties" or individually referred to as a "Party"). Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Employment Agreement (as defined below).

WHEREAS, the Parties have previously entered into that certain Employment Agreement, dated as of _____, 2020 (the "Employment Agreement") and that certain Employee Proprietary Information and Inventions Assignment Agreement (the "Proprietary Information Agreement"); and

WHEREAS, in connection with Executive's termination of employment with the Company or a subsidiary or affiliate of the Company effective _____, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that Executive may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of or in any way related to Executive's employment with or separation from the Company or its subsidiaries or affiliates but, for the avoidance of doubt, nothing herein will be deemed to release any rights or remedies in connection with Executive's ownership of vested equity securities of the Company or one of its affiliates (including Merus N.V. ("Parent")), or Executive's right to indemnification by the Company or any of its affiliates pursuant to contract or applicable law (collectively, the "Retained Claims").

NOW, THEREFORE, in consideration of the severance payments and benefits described in Section 4 of the Employment Agreement, which, pursuant to the Employment Agreement, are conditioned on Executive's execution and non-revocation of this Agreement, and in consideration of the mutual promises made herein, the Company and Executive hereby agree as follows:

1. Severance Payments; Salary and Benefits. The Company agrees to provide Executive with the severance payments and benefits described in Section 4(b) or Section 4(c) of the Employment Agreement, payable at the times set forth in, and subject to the terms and conditions of, the Employment Agreement. In addition, to the extent not already paid, and subject to the terms and conditions of the Employment Agreement, the Company shall pay or provide to Executive all other payments or benefits described in Section 3(c) of the Employment Agreement, subject to and in accordance with the terms thereof.

2. Release of Claims. Executive agrees that, other than with respect to the Retained Claims, the foregoing consideration represents settlement in full of all outstanding obligations owed to Executive by the Company, Parent, any of their direct or indirect subsidiaries and affiliates, and any of their current and former officers, directors, equity holders, managers, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, plan administrators, insurers, trustees, divisions, and subsidiaries and predecessor and successor corporations and assigns (collectively, the "Releasees"). Executive, on Executive's own behalf and on behalf of any of Executive's affiliated companies or entities and any of their respective heirs, family members, executors, agents, and assigns, other than with respect to the Retained

Claims, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the date Executive signs this Agreement, including, without limitation:

(a) any and all claims relating to or arising from Executive's employment or service relationship with the Company or any of its direct or indirect subsidiaries or affiliates and the termination of that relationship;

(b) any and all claims relating to, or arising from, Executive's right to purchase, or actual purchase of any shares of stock or other equity interests of Parent or any of its affiliates, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;

(d) any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Credit Reporting Act; the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act; and the Sarbanes-Oxley Act of 2002;

(e) any and all claims for violation of the federal or any state constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

(g) any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds received by Executive as a result of this Agreement;

(i) any and all claims arising out of the wage and hour and wage payments laws and regulations of the state or states in which Executive has provided service to the Company, Parent or any of their affiliates (including without limitation the Massachusetts Payment of Wages Law); and

(h) any and all claims for attorneys' fees and costs.

Executive agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not release claims that cannot be released as a matter of law, including, but not limited to, Executive's right to report possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934 or Section 806 of the Sarbanes-Oxley Act of 2002, or any other whistleblower protection provisions of state or federal law or regulation, Executive's right to file a charge with or participate in a charge by the Equal Employment Opportunity Commission, or any other local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, against the Company (with the understanding that Executive's release of claims herein bars Executive from recovering such monetary relief from the Company or any Releasee), claims for unemployment compensation or any state disability insurance benefits pursuant to the terms of applicable state law, claims to continued participation in certain of the Company's group benefit plans pursuant to the terms and conditions of COBRA, claims to any benefit entitlements vested as the date of separation of Executive's employment, pursuant to written terms of any employee benefit plan of the Company or its affiliates and Executive's right under applicable law and any Retained Claims. This release further does not release claims for breach of Section 3(c), Section 4(b) or Section 4(c) of the Employment Agreement.

3. Acknowledgment of Waiver of Claims under ADEA. Executive understands and acknowledges that Executive is waiving and releasing any rights Executive may have under the Age Discrimination in Employment Act of 1967 ("ADEA"), and that this waiver and release is knowing and voluntary. Executive understands and agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the date Executive signs this Agreement. Executive understands and acknowledges that the consideration given for this waiver and release is in addition to anything of value to which Executive was already entitled. Executive further understands and acknowledges that Executive has been advised by this writing that: (a) Executive should consult with an attorney prior to executing this Agreement; (b) Executive has 21 days within which to consider this Agreement, and the parties agree that such time period to review this Agreement shall not be extended upon any material or immaterial changes to this Agreement; (c) Executive has 7 days following Executive's execution of this Agreement to revoke this Agreement pursuant to written notice to the General Counsel of the Company; (d) this Agreement shall not be effective until after the revocation period has expired; and (e) nothing in this Agreement prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by federal law. In the event Executive signs this Agreement and returns it to the Company in less than the 21 day period identified above, Executive hereby acknowledges that Executive has freely and voluntarily chosen to waive the time period allotted for considering this Agreement.

4. Restrictive Covenants.

(a) Executive acknowledges and agrees that the restrictive covenants and other post-termination obligations set forth in the Proprietary Information Agreement, including

without limitation Executive's obligations relating to confidentiality, non-use and non-disclosure of Proprietary Information (as defined in the Proprietary Information Agreement), non-solicitation, non-disparagement, cooperation, and return of property, are hereby incorporated by reference and shall remain in full force and effect pursuant to their terms to the maximum extent permitted by applicable law, except that the parties expressly agree to modify the Proprietary Information Agreement by removing Section 4 of the Proprietary Information Agreement, including each subpart thereto, which section shall be of no further force or effect upon the Effective Date (as defined below). Executive represents and warrants that Executive has complied with all provisions of the Proprietary Information Agreement at all times through the Effective Date.

(b) In consideration for the severance payments and benefits set forth in Section 1 of this Agreement, Executive agrees for a period of 12 months after the Effective Date (the "Noncompetition Restricted Period") to not, directly or indirectly, on Executive's own behalf or for the benefit of any other individual or entity: (i) operate, conduct, engage in, or own (except as a holder of not more than 1% of the outstanding stock of a publicly held company), or prepare to operate, conduct, engage in, or own any business or enterprise that develops, manufactures, markets, licenses, sells or otherwise provides, or is preparing to develop, manufacture, market, license, sell or otherwise provide, any product or service that competes with any product or service developed, manufactured, marketed, licensed, sold or otherwise provided, or planned to be developed, manufactured, marketed, licensed, sold or otherwise provided by the Company while Executive was employed by the Company (a "Competing Business") or (ii) participate in, render services to, or assist any individual or entity that engages in a Competing Business in any capacity (whether as an employee, manager, consultant, director, officer, contractor, or otherwise) (A) which involve the same or similar types of services Executive performed for the Company at any time during the last two years of Executive's employment or engagement with the Company or (B) in which Executive could reasonably be expected to use or disclose Proprietary Information, in each case (i) and (ii) limited to each city, county, state, territory and country in which (x) Executive provided services or had a material presence or influence at any time during Executive's last two years of employment or engagement with the Company or (y) the Company is engaged in or has plans to engage in the Competing Business as of the Effective Date. Without limiting the Company's ability to seek other remedies available in law or equity, if Executive violates this Section 4(b), the Noncompetition Restricted Period shall be extended by one day for each day that Executive is in violation of such provisions, up to a maximum extension equal to the length of the Noncompetition Restricted Period, so as to give the Company the full benefit of the bargained-for length of forbearance.

(c) Executive's continued compliance with the terms of the Proprietary Information Agreement (as modified in Section 4(a) above) and the noncompetition obligations set forth in Section 4(b) above (collectively, the "Restrictive Covenants") is a material condition to receipt of the severance payments and benefits set forth in Section 1 of this Agreement. In the event Executive breaches any part of such Restrictive Covenants, then, in addition to any remedies and enforcement mechanisms set forth in the Proprietary Information Agreement, the Employment Agreement and this Agreement, and any other remedies available to the Company (including equitable and injunctive remedies), Executive shall forfeit any additional consideration owing and shall be obligated to promptly return to the Company or Parent (within

two (2) business days of any breach) the full gross amount of all severance payments and benefits provided.

(d) If any provision of the Restrictive Covenants shall be determined to be unenforceable by any court of competent jurisdiction or arbitrator by reason of its extending for too great a period of time or over too large a geographic area or over too great a range of activities, it shall be interpreted to extend only over the maximum period of time, geographic area or range of activities as to which it may be enforceable.

5. Severability. In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

6. No Oral Modification. This Agreement may only be amended in a writing signed by Executive and a duly authorized officer of the Company.

7. Governing Law; Dispute Resolution. This Agreement shall be subject to the provisions of Sections 9(a), 9(c) and 9(i) of the Employment Agreement.

8. Effective Date. If Executive has attained or is over the age of 40 as of the date of Executive's termination of employment, then each Party has seven days after that Party signs this Agreement to revoke it and this Agreement will become effective on the eighth day after Executive signed this Agreement, so long as it has been signed by the Parties and has not been revoked by either Party before that date (the "Effective Date"). If Executive has not attained the age of 40 as of the date of Executive's termination of employment, then the "Effective Date" shall be the date on which Executive signs this Agreement. For the avoidance of doubt, if Executive revokes this Agreement as provided herein, the Parties' modification to the Proprietary Information Agreement set forth in Section 4(a) above shall be void and of no effect. Unless the Company has elected or elects to expressly waive Executive's noncompetition obligations set forth in Section 4(a) of the Proprietary Information Agreement as provided in Section 10(c) of the Proprietary Information Agreement, the Proprietary Information Agreement, including without limitation Section 4 of the Proprietary Information Agreement, shall remain in full force and effect.

10. Voluntary Execution of Agreement. Executive understands and agrees that Executive executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of Executive's claims against the Company and any of the other Releasees. Executive acknowledges that: (a) Executive has read this Agreement; (b) Executive has not relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement; (c) Executive has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of Executive's own choice or has elected not to retain legal counsel; (d) Executive understands the terms and consequences of this Agreement and of the releases it contains; and (e) Executive is fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

EXECUTIVE

Dated:

Andrew Joe

COMPANY

Dated:

By:

Name: Sven (Bill) Lundberg

Title: President, CEO

CERTIFICATION

I, Sven (Bill) Ante Lundberg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Merus N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

By: _____ */s/ Sven A. Lundberg*
Sven (Bill) Ante Lundberg
President, Chief Executive Officer and
Principal Financial Officer
(Principal Executive Officer and
Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Merus N.V. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 6, 2020

By: _____ /s/ Sven A. Lundberg

Sven (Bill) Ante Lundberg
President, Chief Executive Officer and
Principal Financial Officer
(Principal Executive Officer and
Principal Financial Officer)