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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2017

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: 001-38219

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**Deciphera Pharmaceuticals, Inc.**

(Exact name of registrant as specified in its charter)

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

**30-1003521**  
(I.R.S. Employer  
Identification Number)

**500 Totten Pond Road**  
**Waltham, MA**  
(Address of principal executive offices)

**02451**  
(Zip Code)

**(781) 209-6400**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input 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 October 31, 2017 there were 32,591,686 shares of Common Stock, \$0.01 par value per share, outstanding.

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**Deciphera Pharmaceuticals, Inc.**

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, which reflect our current views with respect to, among other things, our operations and financial performance. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plan, objectives of management and expected market growth are forward-looking statements. You can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under “Risk Factors” and include, among other things:

- the success, cost and timing of our product development activities and clinical trials, including the timing of our planned Phase 3 trials for DCC-2618 in GIST;
- our ability to obtain and maintain regulatory approval for DCC-2618 or any of our other current or future drug candidates, and any related restrictions, limitations, and/or warnings in the label of an approved drug candidate;
- our expectations regarding the size of target patient populations for our drug candidates, if approved for commercial use, and any additional drug candidates we may develop;
- our ability to obtain funding for our operations;
- the commercialization of our drug candidates, if approved;
- our plans to research, develop and commercialize our drug candidates, including the timing of our planned Phase 3 trials for DCC-2618 in GIST;
- our ability to attract collaborators with development, regulatory and commercialization expertise;
- our expectations regarding our ability to obtain, maintain, enforce and defend our intellectual property protection for our drug candidates;
- future agreements with third parties in connection with the commercialization of DCC-2618, or any of our other current or future drug candidates;
- the size and growth potential of the markets for our drug candidates, and our ability to serve those markets;
- the rate and degree of market acceptance of our drug candidates, as well as the reimbursement coverage for our drug candidates;
- regulatory and legal developments in the United States and foreign countries;
- the performance of our third-party suppliers and manufacturers;
- the success of competing therapies that are or may become available;
- our ability to attract and retain key scientific or management personnel;
- the accuracy of our estimates regarding expenses, future revenues, capital requirements and needs for additional financing;
- our expectations regarding the period during which we qualify as an emerging growth company under the JOBS Act; and
- our use of the proceeds from our initial public offering.

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These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Quarterly Report on Form 10-Q. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Deciphera Pharmaceuticals, Inc.**

**Balance Sheets  
(Unaudited)**

	<b>September 30, 2017</b>	<b>August 1, 2017</b>
<b>Assets</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Stockholders' Equity</b>		
Common stock, \$0.01 par value; 1,000 shares authorized, no shares issued or outstanding as of September 30, 2017 and August 1, 2017	—	—
Total stockholders' equity	<u>\$ —</u>	<u>\$ —</u>

The accompanying notes are an integral part of these balance sheets.

**Deciphera Pharmaceuticals, Inc.**

**Notes to Balance Sheets  
(Unaudited)**

**1. Organization**

Deciphera Pharmaceuticals, Inc. (the “Company”) was formed as a Delaware corporation on August 1, 2017. The Company was formed for the sole purpose of completing an initial public offering, (the “IPO”) and related transactions in order to carry on the business of Deciphera Pharmaceuticals, LLC. The Company will be the sole managing member of Deciphera Pharmaceuticals, LLC and will operate and control all of the businesses and affairs of Deciphera Pharmaceuticals, LLC. The Company does not intend to be an operating entity and incur any expenses prior to, and independent of the IPO (see Note 4).

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The balance sheet is presented in accordance with accounting principles generally accepted in the United States of America. Separate statements of operations, of comprehensive income, of stockholders’ equity and of cash flows have not been presented in the financial statements because there have been no activities in this entity.

The Company’s fiscal year ends on December 31.

**3. Stockholders’ Equity**

As of September 30, 2017 and August 1, 2017, the Company was authorized to issue 1,000 shares of common stock, par value \$0.01 per share, none of which had been issued.

***2017 Equity Incentive Plan***

On September 21, 2017, the Company adopted the 2017 Stock Option and Incentive Plan (the “2017 Plan”) which became effective on September 26, 2017. The 2017 Plan provides for the grant of equity-based incentive awards. The Company initially reserved 2,655,831 shares of common stock for the issuance of awards under the 2017 Plan. The 2017 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2018, by 4% of the outstanding number of shares of our common stock on the immediately preceding December 31 or such lesser number of shares as determined by the Compensation Committee of the Company’s Board of Directors.

On September 21, 2017, the Board of Directors of the Company approved the grant of options to purchase 505,675 shares of common stock to certain employees and directors at an exercise price equal to the IPO price of its common stock, which was \$17.00 per share, subject to the completion of the Conversion (see Note 4).

***2017 Employee Stock Purchase Plan***

On September 21, 2017, the Company adopted the 2017 Employee Stock Purchase Plan, (the “ESPP”) which became effective on September 26, 2017. The ESPP initially reserves and authorizes the issuance of up to a total of 306,750 shares of common stock to participating employees. The ESPP provides that the number of shares reserved and available for issuance will automatically increase each January 1, beginning on January 1, 2018 and each January 1 thereafter through January 1, 2027, by the least of (i) 1% of the outstanding number of shares of our common stock on the immediately preceding December 31; (ii) 400,000 shares or (iii) such number of shares as determined by the ESPP administrator.

As of September 30, 2017, no offering periods have commenced under the ESPP.

**4. Subsequent Events**

***Increase in Authorized Shares***

On October 2, 2017, the Company’s amended and restated its certificate of incorporation to increase authorized capital stock to 125,000,000 shares of common stock and 5,000,000 shares of preferred stock, each with a par value of \$0.01 per share.

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***Conversion***

On October 2, 2017, immediately prior to the completion of the IPO, the Company engaged in a series of transactions whereby Deciphera Pharmaceuticals, LLC became a wholly owned subsidiary of Deciphera Pharmaceuticals, Inc. As part of the transactions, shareholders of Deciphera Pharmaceuticals, LLC exchanged their shares of Deciphera Pharmaceuticals, LLC for shares of Deciphera Pharmaceuticals, Inc. on a one-for-5.65 basis and exchanged their outstanding equity incentive awards of Deciphera Pharmaceuticals, LLC for options to purchase the same number of shares of common stock of Deciphera Pharmaceuticals, Inc. multiplied by 5.65, with a corresponding adjustment to divide the exercise price by 5.65 (the “Conversion”). The Conversion included the exchange of all outstanding series A, series B and series C preferred shares of Deciphera Pharmaceuticals, LLC for an aggregate of 24,425,190 shares of common stock of Deciphera Pharmaceuticals, Inc. and the exchange of all outstanding options and share appreciations rights of Deciphera Pharmaceuticals, LLC for 4,092,710 options to purchase common stock of Deciphera Pharmaceuticals, Inc. with a weighted average exercise price of \$3.37 per share.

***Initial Public Offering***

On October 2, 2017, the Company completed the IPO, pursuant to which it issued and sold 7,500,000 shares of common stock at the IPO price of \$17.00 per share, resulting in net proceeds of \$118.6 million after deducting underwriting discounts and commissions but before other offering expenses. On October 4, 2017, the Company issued and sold an additional 666,496 shares of its common stock at the IPO price of \$17.00 per share, less underwriting discounts and commissions, pursuant to the underwriters’ partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds to the Company of \$10.5 million after deducting underwriting discounts and commissions.



[Table of Contents](#)**Deciphera Pharmaceuticals, LLC****Balance Sheets****(In thousands, except share data)  
(Unaudited)**

	September 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 82,149	\$ 57,461
Prepaid expenses and other current assets	596	791
Total current assets	82,745	58,252
Property and equipment, net	731	514
Deferred offering costs	4,316	104
Other assets	75	75
Total assets	<u>\$ 87,867</u>	<u>\$ 58,945</u>
<b>Liabilities, Convertible Preferred Shares and Members' Deficit</b>		
Current liabilities:		
Accounts payable	\$ 3,104	\$ 1,413
Accrued expenses	6,789	2,957
Notes payable to related party	187	187
Total current liabilities	10,080	4,557
Notes payable to related party, net of current portion	1,341	1,481
Other long-term liabilities	18	—
Total liabilities	<u>11,439</u>	<u>6,038</u>
Commitments and contingencies (Note 10)		
Convertible preferred shares (Series A, B-1, B-2, C), no par value; 4,455,039 shares authorized at September 30, 2017 and 3,632,711 shares authorized as of December 31, 2016; 4,323,044 shares issued and outstanding as of September 30, 2017, 3,632,711 shares issued and outstanding as of December 31, 2016; aggregate liquidation preference of \$246,388 as of September 30, 2017 and \$194,088 as of December 31, 2016	<u>244,538</u>	<u>192,667</u>
Members' Deficit:		
Common shares, no par value; 5,217,929 shares authorized as of September 30, 2017 and 4,366,052 shares authorized as of December 31, 2016; no shares issued or outstanding as of September 30, 2017 or December 31, 2016	—	—
Additional paid-in capital	7,847	5,825
Accumulated deficit	<u>(175,957)</u>	<u>(145,585)</u>
Total members' deficit	<u>(168,110)</u>	<u>(139,760)</u>
Total liabilities, convertible preferred shares and members' deficit	<u>\$ 87,867</u>	<u>\$ 58,945</u>

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

**Deciphera Pharmaceuticals, LLC**  
**Statements of Operations and Comprehensive Loss**  
**(In thousands, except share and per share data)**  
**(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$ —	\$ —	\$ —	\$ —
Operating expenses:				
Research and development	9,751	4,717	23,856	13,626
General and administrative	2,430	1,350	6,741	3,678
Total operating expenses	<u>12,181</u>	<u>6,067</u>	<u>30,597</u>	<u>17,304</u>
Loss from operations	<u>(12,181)</u>	<u>(6,067)</u>	<u>(30,597)</u>	<u>(17,304)</u>
Other income (expense):				
Interest expense	(23)	(26)	(72)	(81)
Other income (expense), net	166	(6)	297	2
Total other income (expense), net	<u>143</u>	<u>(32)</u>	<u>225</u>	<u>(79)</u>
Net loss and comprehensive loss	<u>\$ (12,038)</u>	<u>\$ (6,099)</u>	<u>\$ (30,372)</u>	<u>\$ (17,383)</u>
Net loss attributable to Series A convertible preferred shareholders—basic and diluted	<u>\$ (12,038)</u>	<u>\$ (6,099)</u>	<u>\$ (30,372)</u>	<u>\$ (17,383)</u>
Net loss per share attributable to Series A convertible preferred shareholders—basic and diluted	<u>\$ (5.85)</u>	<u>\$ (2.96)</u>	<u>\$ (14.76)</u>	<u>\$ (8.45)</u>
Weighted average Series A convertible preferred shares outstanding—basic and diluted	<u>2,057,750</u>	<u>2,057,750</u>	<u>2,057,750</u>	<u>2,057,750</u>

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

## Deciphera Pharmaceuticals, LLC

## Statements of Cash Flows

(In thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net loss	\$(30,372)	\$(17,383)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	2,022	950
Depreciation and amortization expense	101	60
Loss on disposal of property and equipment	10	6
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	195	59
Accounts payable	1,439	(349)
Accrued expenses	2,638	539
Other assets	—	(55)
Other long-term liabilities	18	—
Net cash used in operating activities	<u>(23,949)</u>	<u>(16,173)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(276)	(104)
Net cash used in investing activities	<u>(276)</u>	<u>(104)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of convertible preferred shares	52,300	55,324
Repayment of notes payable to related party	(140)	(151)
Payments of convertible preferred share issuance costs	(429)	(25)
Payments of initial public offering costs	(2,818)	(8)
Net cash provided by financing activities	<u>48,913</u>	<u>55,140</u>
<b>Net increase in cash and cash equivalents</b>	<u>24,688</u>	<u>38,863</u>
Cash and cash equivalents at beginning of period	<u>57,461</u>	<u>25,777</u>
Cash and cash equivalents at end of period	<u>\$ 82,149</u>	<u>\$ 64,640</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 72	\$ 81
<b>Supplemental disclosure of non-cash investing activities:</b>		
Purchases of property and equipment included in accounts payable	\$ 52	\$ —
<b>Supplemental disclosure of non-cash financing activities:</b>		
Deferred offering costs included in accounts payable or accrued expenses	\$ 1,394	\$ 87

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

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
**(Unaudited)**

**1. Nature of the Business and Basis of Presentation**

Deciphera Pharmaceuticals, LLC (the “Company”) is a clinical-stage biopharmaceutical company developing new drugs to improve the lives of cancer patients by addressing key mechanisms of drug resistance that limit the rate and durability of response of many cancer therapies. The Company’s targeted, small molecule drug candidates, designed using its proprietary kinase switch control inhibitor platform, inhibit the activation of kinases, an important family of enzymes, that, when mutated or over expressed, are known to be directly involved in the growth and spread of many cancers. In September 2015, the Company re-domesticated from a Kansas limited liability company to a Delaware limited liability company.

On October 2, 2017, immediately prior to the completion of its initial public offering (“IPO”), the Company engaged in a series of transactions whereby Deciphera Pharmaceuticals, LLC became a wholly owned subsidiary of Deciphera Pharmaceuticals, Inc. As part of the transactions, shareholders of Deciphera Pharmaceuticals, LLC exchanged their shares of Deciphera Pharmaceuticals, LLC for shares of Deciphera Pharmaceuticals, Inc. on a one-for-5.65 basis, (the “Conversion”) (see Note 13).

On October 2, 2017, Deciphera Pharmaceuticals, Inc., completed the IPO, pursuant to which it issued and sold 7,500,000 shares of common stock at the IPO price of \$17.00 per share, resulting in net proceeds of \$118.6 million after deducting underwriting discounts and commissions but before other offering expenses. On October 4, 2017, Deciphera Pharmaceuticals, Inc., issued and sold an additional 666,496 shares of its common stock at the IPO price of \$17.00 per share pursuant to the underwriters’ partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds of \$10.5 million after deducting underwriting discounts and commissions. Upon the closing of the IPO, the Company’s outstanding convertible preferred shares automatically converted into shares of common stock (see Note 6).

The Company is subject to risks and uncertainties common to early-stage companies in the biotechnology industry, including, but not limited to, development by competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations and the ability to secure additional capital to fund operations. Drug candidates currently under development will require significant additional research and development efforts, including extensive preclinical and clinical testing and regulatory approval prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel and infrastructure and extensive compliance-reporting capabilities. Even if the Company’s drug development efforts are successful, it is uncertain when, if ever, the Company will realize significant revenue from product sales.

The accompanying financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities and commitments in the ordinary course of business. Through September 30, 2017, the Company has funded its operations with the sales of convertible preferred shares, borrowings under convertible notes, borrowings under a construction loan, payments received in connection with a concluded collaboration agreement and grants from the Kansas Bioscience Authority (the “KBA”). Since inception, the Company has incurred recurring losses including net losses of \$30.4 million for the nine months ended September 30, 2017 and \$25.9 million for the year ended December 31, 2016. As of September 30, 2017, the Company had an accumulated deficit of \$176.0 million. The Company expects to continue to generate operating losses in the foreseeable future. As of the issuance date of the interim financial statements, the Company expects that the \$129.1 million of net proceeds after deducting underwriting discounts and commissions it received from the completion of its initial public offering (“IPO”) in October 2017, together with its cash and cash equivalents of \$82.1 million as of September 30, 2017, would be sufficient to fund its operating expenses, capital expenditure requirements and debt service payments through at least 12 months from the issuance date of these interim financial statements. The future viability of the Company is dependent on its ability to raise additional capital to fund its operations.

The Company expects its expenses to increase substantially in connection with ongoing activities, particularly as the Company advances its preclinical activities and clinical trials for its drug candidates in development. Accordingly, the Company will need to obtain substantial additional funding in connection with continuing operations. If the Company is unable to raise capital when needed, or on attractive terms, it could be forced to delay, reduce or eliminate its research or drug development programs or any future commercialization efforts. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient funding on terms acceptable to the Company to fund continuing operations, if at all.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
**(Unaudited)**

**2. Summary of Significant Accounting Policies**

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, the accrual for research and development expenses and the valuation of common shares and share-based awards. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

*Unaudited Interim Financial Information*

The balance sheet at December 31, 2016 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The accompanying unaudited financial statements as of September 30, 2017 and for the three and nine months ended September 30, 2017 and 2016 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The Company believes, however, that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the Company’s audited financial statements and the notes thereto for the year ended December 31, 2016 included in the Company’s Registration Statement on Form S-1, File Number 333-220299 on file with SEC. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the Company’s financial position as of September 30, 2017 and results of operations for the three and nine months ended September 30, 2017 and 2016 and cash flows for the nine months ended September 30, 2017 and 2016 have been made. The results of operations for three and nine months ended September 30, 2017 and 2016 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2017.

*Income Taxes*

Prior to the Conversion, the Company was treated as a partnership for income tax purposes and was not subject to U.S. federal or state income taxation. As a result, the Company has not recorded any U.S. federal or state income tax benefits for the net losses incurred in each reporting period or for any earned research and development tax credits. Through September 30, 2017, the operating losses incurred by the Company have been passed through to its members.

As a result of the Conversion on October 2, 2017, the Company became subject to corporate U.S. federal and state income taxes (see Note 13).

*Deferred Offering Costs*

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded in members’ deficit as a reduction of additional paid-in capital generated as a result of the offering. As of September 30, 2017 and December 31, 2016, the Company recorded \$4.3 million and \$0.1 million, respectively, of deferred offering costs in contemplation of the IPO. Such costs were transferred to additional paid-in capital upon completion of the IPO on October 2, 2017.

*Fair Value Measurements*

Certain assets and liabilities are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.

**Deciphera Pharmaceuticals, LLC**

**Notes to the Financial Statements  
(Unaudited)**

- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The Company's cash equivalents are carried at fair value, determined according to the fair value hierarchy described above (see Note 3). The carrying values of the Company's accounts payable and accrued expenses approximate their fair values due to the short-term nature of these liabilities. The fair value of the Company's outstanding notes payable to related party (see Note 5) as of September 30, 2017 and December 31, 2016 approximated \$1.2 million and \$1.3 million, respectively. The fair value of the outstanding debt was estimated using a discounted cash flow analysis based on current market interest rates for debt issuances with similar remaining years to maturity, adjusted for credit risk, which represents a Level 3 measurement.

***Comprehensive Loss***

Comprehensive loss includes net loss as well as other changes in members' deficit that result from transactions and economic events other than those with shareholders. There was no difference between net loss and comprehensive loss for each of the periods presented in the accompanying financial statements.

***Net Loss per Share***

The Company did not have any common shares outstanding during the three and nine months ended September 30, 2017 and 2016. Accordingly, net loss attributable to common shareholders and basic net loss per share attributable to common shareholders have not been presented in the Company's statements of operations and comprehensive loss. In addition, because the Company had a net loss in each of the periods presented, diluted net loss per share attributable to common shareholders has not been presented as the effect of including common share equivalents in the calculations would have had an anti-dilutive impact. Net loss attributable to Series A convertible preferred shareholders and basic and diluted net loss per share attributable to Series A convertible preferred shareholders have been presented in the Company's statements of operations and comprehensive loss for the three and nine months ended September 30, 2017 and 2016 because Series A convertible preferred shares represent the most subordinated share class outstanding during those periods.

The Company follows the two-class method when computing net income (loss) per share as the Company has issued shares that meet the definition of participating securities. The two-class method determines net income (loss) per share for each class of participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires income available to Series A convertible preferred shareholders for the period to be allocated between participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

Basic net income (loss) per share attributable to Series A convertible preferred shareholders is computed by dividing the net income (loss) attributable to Series A convertible preferred shareholders by the weighted average number of Series A convertible preferred shares outstanding for the period. Diluted net income (loss) attributable to Series A convertible preferred shareholders is computed by adjusting net income (loss) attributable to Series A convertible preferred shareholders to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net income (loss) per share attributable to Series A convertible preferred shareholders is computed by dividing the diluted net income (loss) attributable to Series A convertible preferred shareholders by the weighted average number of Series A convertible preferred shares outstanding for the period, including potential dilutive Series A convertible preferred shares. For purposes of this calculation, outstanding notes payable convertible into Series A convertible preferred shares are considered potential dilutive Series A convertible preferred shares.

The Company's outstanding convertible preferred shares contractually entitle the holders of such shares to participate in distributions but contractually do not require the holders of such shares to participate in losses of the Company. Accordingly, in periods in which the Company reports a net loss, such losses are not allocated to such participating securities. In periods in which the Company reports a net loss attributable to Series A convertible preferred shareholders, diluted net loss per share attributable to Series A convertible preferred shareholders is the same as basic net loss per share attributable to Series A convertible preferred shareholders, since dilutive Series A convertible preferred shares are not assumed to have been issued if their effect is anti-dilutive.

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
**(Unaudited)**

The Company reported a net loss attributable to Series A convertible preferred shareholders for the three and nine months ended September 30, 2017 and 2016.

***Recently Issued Accounting Pronouncements***

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which supersedes existing revenue recognition guidance under GAAP. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard defines a five-step process to achieve this principle, and will require companies to use more judgment and make more estimates than under the current guidance. The Company expects that these judgments and estimates will include identifying performance obligations in the customer contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delays the effective date of ASU 2014-09 such that the standard is effective for public entities for annual periods beginning after December 15, 2017 and for interim periods within those fiscal years. Early adoption of the standard is permitted for annual periods beginning after December 15, 2016. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations* (“ASU 2016-08”), which further clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, clarifying the implementation guidance on identifying performance obligations and licensing. Specifically, the amendments in this update reduce the cost and complexity of identifying promised goods or services and improve the guidance for determining whether promises are separately identifiable. The amendments in this update also provide implementation guidance on determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”), which clarifies the objective of the collectability criterion, presentation of taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and how guidance in ASU 2014-09 is retrospectively applied. ASU 2016-08, ASU 2016-10 and ASU 2016-12 have the same effective dates and transition requirements as ASU 2014-09. The Company does not intend to early adopt these accounting standards and will apply the modified-retrospective method. The adoption of these standards is not expected to have an impact on the Company’s financial position, results of operations or cash flows as the Company does not currently have any revenue-generating arrangements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. Leases will be classified as either operating or finance, and classification will be based on criteria similar to current lease accounting, but without explicit bright lines. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial position, results of operations or cash flows.

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
**(Unaudited)**

**3. Fair Value of Financial Assets**

The following tables present information about the Company's financial assets measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values (in thousands):

	Fair Value Measurements at September 30, 2017 Using			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ —	\$ 78,507	\$ —	\$ 78,507
Total	<u>\$ —</u>	<u>\$ 78,507</u>	<u>\$ —</u>	<u>\$ 78,507</u>

	Fair Value Measurements at December 31, 2016 Using			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ —	\$ 53,180	\$ —	\$ 53,180
Total	<u>\$ —</u>	<u>\$ 53,180</u>	<u>\$ —</u>	<u>\$ 53,180</u>

**4. Accrued Expenses**

Accrued expenses consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Accrued external research and development expenses	\$ 3,869	\$ 1,433
Accrued professional fees	1,659	240
Accrued payroll and related expenses	1,243	1,267
Accrued other	18	17
	<u>\$ 6,789</u>	<u>\$ 2,957</u>

**5. Notes Payable to Related Party**

Notes payable to related party as of September 30, 2017 and December 31, 2016 consisted of outstanding borrowings under a loan agreement and a security agreement (together, the "CRL Construction Loan") with Clinical Reference Laboratory, Inc. ("CRL"), a related party (see Note 12), as follows (in thousands):

	September 30, 2017	December 31, 2016
Notes payable to related party	\$ 1,528	\$ 1,668
Less: Current portion	(187)	(187)
Notes payable to related party, net of current portion	<u>\$ 1,341</u>	<u>\$ 1,481</u>

Total interest expense for each of the three months ended September 30, 2017 and 2016 was less than \$0.1 million. Total interest expense for each of the nine months ended September 30, 2017 and 2016 was \$0.1 million.



**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
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**6. Convertible Preferred Shares**

In May 2017, the Company entered into a Series C preferred shares purchase agreement, pursuant to which the Company sold 690,333 Series C Shares at a price of \$75.76 per share for proceeds of \$51.9 million, net of issuance costs of \$0.4 million. In connection with the Series C preferred shares purchase agreement, the Company's operating agreement was amended and restated to authorize the Company to issue 822,328 Series C Shares.

As of each balance sheet date, the Preferred Shares consisted of the following (in thousands, except share amounts):

	September 30, 2017				
	Preferred Shares Authorized	Preferred Shares Issued and Outstanding	Carrying Value	Liquidation Preference	Common Shares Issuable Upon Conversion
Series A Shares	2,057,750	2,057,750	\$102,556	\$ 103,484	2,057,750
Series B-1 Shares	698,595	698,595	34,812	35,279	698,595
Series B-2 Shares	876,366	876,366	55,299	55,325	876,366
Series C Shares	822,328	690,333	51,871	52,300	690,333
	<u>4,455,039</u>	<u>4,323,044</u>	<u>\$244,538</u>	<u>\$ 246,388</u>	<u>4,323,044</u>

  

	December 31, 2016				
	Preferred Shares Authorized	Preferred Shares Issued and Outstanding	Carrying Value	Liquidation Preference	Common Shares Issuable Upon Conversion
Series A Shares	2,057,750	2,057,750	\$102,556	\$ 103,484	2,057,750
Series B-1 Shares	698,595	698,595	34,812	35,279	698,595
Series B-2 Shares	876,366	876,366	55,299	55,325	876,366
	<u>3,632,711</u>	<u>3,632,711</u>	<u>\$192,667</u>	<u>\$ 194,088</u>	<u>3,632,711</u>

Immediately prior to the closing of the IPO on October 2, 2017, the Company's outstanding convertible preferred shares automatically converted into 24,425,190 shares of common stock of Deciphera Pharmaceuticals, Inc. (see Note 13).

**7. Common Shares**

In May 2017, the Company's operating agreement was amended and restated to increase the number of common shares authorized from 4,366,052 to 5,217,929 shares.

**8. Share-Based Awards****2015 Equity Incentive Plan**

In May 2017, the Company's operating agreement was amended and restated to increase the number of common shares reserved for issuance under the 2015 Equity Incentive Plan from 641,066 to 762,890 shares. Upon completion of the IPO, the Company will no longer be making any future awards under this plan (see Note 13).

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
**(Unaudited)**

**Share-Based Compensation**

Share-based compensation expense was classified in the statements of operations and comprehensive loss as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Research and development expenses	\$ 459	\$ 189	\$ 797	\$ 382
General and administrative expenses	553	273	1,225	568
	<u>\$ 1,012</u>	<u>\$ 462</u>	<u>\$ 2,022</u>	<u>\$ 950</u>

As of September 30, 2017, total unrecognized compensation cost related to the unvested share-based awards was \$4.0 million, which is expected to be recognized over a weighted average of 1.5 years.

**9. Net Loss per Share**

The Company did not have any common shares outstanding during the three and nine months ended September 30, 2017 and 2016. Accordingly, net loss attributable to common shareholders and basic net loss per share attributable to common shareholders have not been presented in the Company's statements of operations and comprehensive loss. In addition, because the Company had a net loss in each of the periods presented, diluted net loss per share attributable to common shareholders has not been presented as the effect of including common share equivalents in the calculations would have had an anti-dilutive impact.

Net loss attributable to Series A convertible preferred shareholders and basic and diluted net loss per share attributable to Series A convertible preferred shareholders have been presented in the Company's statements of operations and comprehensive loss for the three and nine months ended September 30, 2017 and 2016 because Series A convertible preferred shares represent the most subordinated share class outstanding during those periods.

Basic and diluted net loss per share attributable to Series A convertible preferred shareholders was calculated as follows (in thousands, except share and per share amounts):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Numerator:</b>				
Net loss attributable to Series A convertible preferred shareholders	<u>\$ (12,038)</u>	<u>\$ (6,099)</u>	<u>\$ (30,372)</u>	<u>\$ (17,383)</u>
<b>Denominator:</b>				
Weighted average Series A convertible preferred shares outstanding—basic and diluted	<u>2,057,750</u>	<u>2,057,750</u>	<u>2,057,750</u>	<u>2,057,750</u>
Net loss per share attributable to Series A convertible preferred shareholders—basic and diluted	<u>\$ (5.85)</u>	<u>\$ (2.96)</u>	<u>\$ (14.76)</u>	<u>\$ (8.45)</u>

**Series A Preferred Share Equivalents**

The Company had no securities outstanding as of September 30, 2017 and 2016 that represented potential Series A convertible preferred shares.

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
**(Unaudited)**

***Common Share Equivalents***

The following potential dilutive securities, presented based on amounts outstanding at each period end, have been excluded from the calculation of diluted net loss per share because including them would have had an anti-dilutive impact:

	As of September 30,	
	2017	2016
Series B convertible preferred shares (as converted to common shares)	1,574,961	1,574,961
Series C convertible preferred shares (as converted to common shares)	690,333	—
Options to purchase common shares	601,556	443,849
Share appreciation rights	122,823	82,509
	<u>2,989,673</u>	<u>2,101,319</u>

**10. Commitments and Contingencies**

***Leases***

The Company has a three-year sublease agreement for office space in Waltham, Massachusetts that began in September 2016 and expires in September 2019. Prior to this lease, the Company had a lease agreement for office space in Waltham, Massachusetts that expired in September 2016.

The Company has two five-year lease agreements for office and laboratory space in Lawrence, Kansas that began on January 1, 2016 and expire on December 31, 2020. In August 2017, the Company entered into a lease for additional office space in Lawrence, Kansas, effective September 1, 2017, that will expire in December 2020, with annual payments due of less than \$0.1 million.

Payment escalations specified in the lease agreements are accrued, and rent expense is recognized on a straight-line basis over the terms of occupancy.

The Company recorded rent expense of \$0.1 million during each of the three months ended September 30, 2017 and 2016, respectively, and \$0.4 million and \$0.3 million during the nine months ended September 30, 2017 and 2016, respectively.

The following table summarizes the future minimum lease payments due under the operating leases as of September 30, 2017 (in thousands):

Remainder of 2017	\$ 154
2018	617
2019	519
2020	315
	<u>\$1,605</u>

***KBA Grants***

Prior to 2014, the Company received funding from two research and development grants from the KBA totaling \$2.0 million. As of December 31, 2013, no further amounts will be received under these grants. Pursuant to Kansas law, the Company may be required to repay some or all of the financial assistance received from the KBA, subject to the discretion of the KBA, if the Company relocates the operations in which the KBA invested outside of the State of Kansas, if the Company initiates procedures to dissolve and wind up or cease operations within ten years after receiving such financial assistance, or upon certain significant changes to ownership of the Company. The Company will only account for the repayment of the grants if it becomes probable that the Company will be required to repay any funds previously received.

***Legal Proceedings***

The Company is not currently a party to any material legal proceedings. At each reporting date, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies. The Company expenses the costs related to its legal proceedings as they are incurred.

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
**(Unaudited)**

***Indemnification Agreements***

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, business partners and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors and senior management that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. To date, the Company has not incurred any material costs as a result of such indemnifications. The Company is not aware of any claims under indemnification arrangements, and it has not accrued any liabilities related to such obligations in its financial statements as of September 30, 2017 or December 31, 2016.

**11. 401(k) Savings Plan**

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code that is managed by CRL, a related party (the “2015 401(k) Plan”). Under the 2015 401(k) Plan, the Company provides matching contributions up to 50% of actual dollars contributed, not to exceed a maximum of 4% of gross wages, subject to certain time-based vesting requirements. Total employer matching contributions related to the 2015 401(k) Plan were less than \$0.1 million for each of the three months ended September 30, 2017 and 2016 and \$0.1 million for each of the nine months ended September 30, 2017 and 2016. Effective January 1, 2017, the matching contribution limit was increased to up to 50% of actual dollars contributed, not to exceed a maximum of 6% of gross wages.

**12. Related Parties**

***Clinical Reference Laboratory, Inc.***

One of the members of the Company’s board of directors is the Chief Executive Officer of CRL. CRL is the owner of approximately 31% of Brightstar, a holder of more than 5% of the Preferred Shares.

The Company is a party to a loan agreement and a security agreement, each dated as of June 11, 2010, with CRL. The Company borrowed an aggregate of \$2.8 million under the loan agreement to finance improvements to the Company’s biology and chemistry laboratories in Lawrence, Kansas. In December 2016, the loan was assigned to CHC, Inc., a related party, which owns 100% of CRL. Borrowings under the loan bear interest at a fixed rate equal to 6.0% per annum and the Company is required to make monthly payments of principal and interest, based on a 15-year straight-line amortization schedule. For each of the three months ended September 30, 2017 and 2016, the Company recorded less than \$0.1 million of interest expense related to this loan. For each of the nine months ended September 30, 2017 and 2016, the Company recorded \$0.1 million of interest expense related to this loan. For each of the nine months ended September 30, 2017 and 2016, the Company made \$0.2 million of principal and interest payments under the loan. As of September 30, 2017 and December 31, 2016, principal amounts owed under the loan agreement totaled \$1.5 million and \$1.7 million, respectively (see Note 5).

The Company is party to a master services agreement, effective as of May 20, 2013, with CRL under which the Company purchased and expects to continue to purchase laboratory services. Under the agreement, the Company has agreed to use CRL on an exclusive basis for laboratory testing needs. For the three months ended September 30, 2017 and 2016, the Company recorded \$0.2 million and \$0.1 million, respectively, of research and development expense incurred under this agreement. For the nine months ended September 30, 2017 and 2016, the Company recorded \$0.3 million and \$0.1 million, respectively, of research and development expense incurred under this agreement, of which \$0.2 million and \$0.1 million, respectively, was paid to CRL during those same periods. As of September 30, 2017 and December 31, 2016, total amounts owed to CRL for laboratory services were \$0.2 million and less than \$0.1 million, respectively, which amounts were included in accounts payable and accrued expenses. The Company is not committed to purchase any minimum amounts under the agreement.

**Deciphera Pharmaceuticals, LLC**  
**Notes to the Financial Statements**  
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In 2015, the Company entered into an agreement with CRL under which the Company became a participating employer in CRL's 401(k) plan. For the three months ended September 30, 2017 and 2016, the total amount of contributions made by employees of the Company under the plan was \$0.1 million and less than \$0.1 million, respectively. For the nine months ended September 30, 2017 and 2016, the total amount of contributions made by employees of the Company under the plan was \$0.4 million and \$0.2 million, respectively.

**13. Subsequent Events**

*Conversion*

On October 2, 2017, immediately prior to the completion of the IPO, the Company engaged in a series of transactions whereby Deciphera Pharmaceuticals, LLC became a wholly owned subsidiary of Deciphera Pharmaceuticals, Inc. As part of the transactions, shareholders of Deciphera Pharmaceuticals, LLC exchanged their shares of Deciphera Pharmaceuticals, LLC for shares of Deciphera Pharmaceuticals, Inc. on a one-for-5.65 basis and exchanged their outstanding equity incentive awards of Deciphera Pharmaceuticals, LLC for options to purchase the same number of shares of common stock of Deciphera Pharmaceuticals, Inc. multiplied by 5.65, with a corresponding adjustment to divide the exercise price by 5.65 (the "Conversion"). The Conversion included the exchange of all outstanding series A, series B and series C preferred shares of Deciphera Pharmaceuticals, LLC for an aggregate of 24,425,190 shares of common stock of Deciphera Pharmaceuticals, Inc and the exchange of all outstanding options and share appreciations rights of Deciphera Pharmaceuticals, LLC for 4,092,710 options to purchase common stock of Deciphera Pharmaceuticals, Inc. with a weighted average exercise price of \$3.37 per share.

*Initial Public Offering*

On October 2, 2017, the Company completed an IPO of its common stock, and issued and sold 7,500,000 shares of common stock at a public offering price of \$17.00 per share, resulting in net proceeds of \$118.6 million after deducting underwriting discounts and commissions but before other offering expenses. On October 4, 2017, the Company issued and sold an additional 666,496 shares of its common stock at the IPO price of \$17.00 per share, less underwriting discounts and commissions, pursuant to the underwriters partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds to the Company of \$10.5 million after deducting discounts and commissions.

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

*The following discussion represents the financial results of Deciphera Pharmaceuticals, LLC, which became a wholly owned subsidiary of Deciphera Pharmaceuticals, Inc., the entity whose shares were sold in our initial public offering. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our final prospectus for our initial public offering filed pursuant to Rule 424(b)(4) under the Securities Act with the SEC on September 28, 2017. 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 the “Risk Factors” section 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**

We are a clinical-stage biopharmaceutical company developing new drugs to improve the lives of cancer patients by addressing key mechanisms of drug resistance that limit the rate and durability of response of many cancer therapies. Our targeted, small molecule drug candidates, designed using our proprietary kinase switch control inhibitor platform, inhibit the activation of kinases, an important family of enzymes, that, when mutated or over expressed, are known to be directly involved in the growth and spread of many cancers. We have built a diverse pipeline of wholly owned, orally administered drug candidates that include three clinical-stage and two research-stage programs.

Since our inception in 2003, we have focused substantially all of our efforts and financial resources on organizing and staffing our company, business planning, raising capital, developing product and technology rights, and conducting research and development activities for our drug candidates. We do not have any products approved for sale and have not generated any revenue from product sales. To date, we have funded our operations primarily with proceeds from the sales of preferred shares, proceeds from the issuance of convertible notes, payments received under a concluded collaboration agreement, borrowings under a construction loan and research and development grants from the Kansas Bioscience Authority, or KBA. Through September 30, 2017, we received net proceeds of \$227.6 million from sales of our preferred shares, \$31.1 million under a concluded collaboration agreement, \$2.8 million under a construction loan and \$1.9 million in research and development grants from the KBA.

In addition, on October 2, 2017, we completed an initial public offering, or IPO, of our common stock, pursuant to which we issued and sold 7,500,000 shares of common stock at a public offering price of \$17.00 per share, resulting in net proceeds of \$118.6 million after deducting underwriting discounts and commissions but before other offering expenses. On October 4, 2017, we issued and sold an additional 666,496 shares of our common stock at the IPO price of \$17.00 per share, pursuant to the underwriters’ partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds of \$10.5 million after deducting discounts and commissions.

Since our inception, we have incurred significant operating losses. Our ability to generate product revenue sufficient to achieve profitability will depend heavily on the successful development and eventual commercialization of one or more of our drug candidates. Our net loss was \$30.4 million for the nine months ended September 30, 2017 and \$25.9 million for the year ended December 31, 2016. As of September 30, 2017, we had an accumulated deficit of \$176.0 million. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years. We expect that our expenses and capital requirements will increase substantially in connection with our ongoing activities, particularly as we:

- continue enrollment in and proceed with the expansion cohorts of our Phase 1 clinical trial for DCC-2618;
- prepare for and initiate our planned pivotal Phase 3 clinical trials of DCC-2618;
- advance our planned clinical programs for DCC-3014 and rebastinib;
- develop any other future drug candidates we may choose to pursue;
- continue research and development and drug discovery and initiate additional clinical trials;
- seek marketing approval for any of our drug candidates that successfully complete clinical development;
- develop and scale up our capabilities to support our ongoing preclinical activities and clinical trials for our drug candidates and commercialization of any of our drug candidates for which we obtain marketing approval;
- maintain, expand, protect and enforce our intellectual property portfolio;
- develop and expand our sales, marketing and distribution capabilities for our drug candidates for which we obtain marketing approval, if any; and
- expand our operational, financial and management systems and increase personnel, including to support our clinical development and commercialization efforts and our operations as a public company.

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We will not generate revenue from product sales unless and until we successfully complete clinical development and obtain regulatory approval for our drug candidates. If we obtain regulatory approval for any of our drug candidates and do not enter into a commercialization partnership, we expect to incur significant expenses related to developing our internal commercialization capability to support product sales, marketing and distribution. Further, we expect to incur additional costs associated with operating as a public company.

As a result, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. We may be unable to raise additional funds or enter into such other agreements or arrangements when needed on favorable terms, or at all. If we fail to raise capital or enter into such agreements as, and when, needed, we may have to significantly delay, scale back or discontinue the development and commercialization of one or more of our drug candidates.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to accurately predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we are able to generate product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

As of September 30, 2017, we had cash and cash equivalents of \$82.1 million. We believe that the net proceeds from our offering completed in October 2017, together with our existing cash and cash equivalents, will enable us to fund our operating expenses, capital expenditure requirements and debt service payments through the first half of 2019. See “—Liquidity and Capital Resources.”

### **The Conversion**

On October 2, 2017, immediately prior to the completion of our IPO, we engaged in a series of transactions whereby Deciphera Pharmaceuticals, LLC became a wholly owned subsidiary of Deciphera Pharmaceuticals, Inc., a newly formed Delaware corporation. As part of the transactions, shareholders of Deciphera Pharmaceuticals, LLC exchanged their shares of Deciphera Pharmaceuticals, LLC for shares of Deciphera Pharmaceuticals, Inc. on a one-for-5.65 basis and exchanged their outstanding equity incentive awards of Deciphera Pharmaceuticals, LLC for options to purchase the same number of shares of common stock of Deciphera Pharmaceuticals, Inc. multiplied by 5.65, with a corresponding adjustment to divide the exercise price by 5.65. We refer to these transactions as the Conversion.

### **Components of Our Results of Operations**

#### ***Revenue***

To date, we have not generated any revenue from product sales and do not expect to generate any revenue from the sale of products in the foreseeable future. If our development efforts for our drug candidates are successful and result in regulatory approval, we may generate revenue in the future from product sales. If we enter into license or collaboration agreements for any of our drug candidates or intellectual property, we may generate revenue in the future from payments as a result of such license or collaboration agreements. We cannot predict if, when, or to what extent we will generate revenue from the commercialization and sale of our drug candidates. We may never succeed in obtaining regulatory approval for any of our drug candidates.

#### ***Operating Expenses***

##### *Research and Development Expenses*

Research and development expenses consist primarily of costs incurred for our research activities, including our drug discovery efforts, and the development of our drug candidates, which include:

- employee-related expenses, including salaries, related benefits, travel and share-based compensation expense for employees engaged in research and development functions;
- expenses incurred in connection with the preclinical and clinical development of our drug candidates, including under agreements with contract research organizations, or CROs;

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- the cost of consultants and contract manufacturing organizations, or CMOs, that manufacture drug products for use in our preclinical studies and clinical trials; and
- facilities, depreciation and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and supplies.

We expense research and development costs to operations as incurred. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are recorded as prepaid expenses. The prepaid amounts are expensed as the related goods are delivered or the services are performed.

Our direct research and development expenses are tracked on a program-by-program basis and consist primarily of external costs, such as fees paid to consultants, central laboratories, contractors, CMOs and CROs in connection with our preclinical and clinical development activities. We do not allocate employee costs, costs associated with our proprietary kinase switch control inhibitor platform technology or facility expenses, including depreciation or other indirect costs, to specific product development programs because these costs are deployed across multiple product development programs and, as such, are not separately classified.

The table below summarizes our research and development expenses incurred by development program:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
DCC-2618	\$ 5,453	\$ 1,378	\$12,515	\$ 3,334
DCC-3014	541	734	1,820	2,502
Rebastinib	117	325	331	816
Discontinued program	124	706	594	3,035
Unallocated expenses	<u>3,516</u>	<u>1,574</u>	<u>8,596</u>	<u>3,939</u>
Total research and development expenses	<u>\$ 9,751</u>	<u>\$ 4,717</u>	<u>\$23,856</u>	<u>\$13,626</u>

Drug candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect that our research and development expenses will increase substantially in connection with our planned clinical and preclinical development activities in the near term and in the future. At this time, we cannot reasonably estimate or know the nature, timing and costs of the efforts that will be necessary to complete the preclinical and clinical development of any of our drug candidates.

The successful development and commercialization of our drug candidates is highly uncertain. This is due to the numerous risks and uncertainties, including the following:

- successful completion of preclinical studies and clinical trials;
- receipt and related terms of marketing approvals from applicable regulatory authorities;
- raising additional funds necessary to complete clinical development of and commercialize our drug candidates;
- obtaining and maintaining patent, trade secret and other intellectual property protection and regulatory exclusivity for our drug candidates;
- making arrangements with third-party manufacturers, or establishing manufacturing capabilities, for both clinical and commercial supplies of our drug candidates;
- developing and implementing marketing and reimbursement strategies;
- establishing sales, marketing and distribution capabilities and launching commercial sales of our products, if and when approved, whether alone or in collaboration with others;
- acceptance of our products, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies;
- the ability to obtain clearance or approval of companion diagnostic tests, if required, on a timely basis, or at all;
- obtaining and maintaining third-party coverage and adequate reimbursement;



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- protecting and enforcing our rights in our intellectual property portfolio; and
- maintaining a continued acceptable safety profile of the products following approval.

A change in the outcome of any of these variables with respect to the development of any of our drug candidates would significantly change the costs and timing associated with the development of that drug candidate. We may never succeed in obtaining regulatory approval for any of our drug candidates.

Research and development activities are central to our business model. Drug candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect research and development costs to increase significantly for the foreseeable future as our drug candidate development programs progress. However, we do not believe that it is possible at this time to accurately project total program-specific expenses through commercialization. There are numerous factors associated with the successful commercialization of any of our drug candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will impact our clinical development programs and plans.

### *General and Administrative Expenses*

General and administrative expenses consist primarily of salaries and related costs, including share-based compensation, for personnel in executive, finance and administrative functions. General and administrative expenses also include direct and allocated facility-related costs as well as professional fees for legal, patent, consulting, accounting and audit services.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support our continued research activities and development of our drug candidates. We also anticipate that we will incur increased accounting, audit, legal, regulatory, compliance, and director and officer insurance costs as well as investor and public relations expenses associated with operating as a public company.

### **Other Income (Expense)**

#### *Interest Expense*

Interest expense consists of interest expense associated with an outstanding construction loan from a related party. See “—Liquidity and Capital Resources—Construction Loan.”

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

Other income (expense), net, consists of insignificant amounts of miscellaneous income and expenses unrelated to our core operations.

### **Income Taxes**

Because we have been treated as a partnership for tax purposes, we have not been subject to U.S. federal or state income taxation. As a result, since our inception, we have not recorded any U.S. federal or state income tax benefits for the net losses we have incurred in each year or for our earned research and development tax credits.

Upon the Conversion, we became subject to typical corporate U.S. federal and state income taxation; however, we do not have net operating loss carryforwards from periods prior to October 2, 2017 available to offset taxable income earned in future periods in which we will be treated as a corporation. To the extent we incur operating losses in future periods in which we are treated as a corporation for tax purposes, net operating loss carryforwards may generally be used by us to offset cash taxes on future taxable income, subject to applicable tax laws.

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

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. We believe that of our critical accounting policies described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Significant Judgments and Estimates” in our final prospectus for our initial public offering filed pursuant to Rule 424(b)(4) under the Securities Act with the SEC on September 28, 2017, the following involve the most judgment and complexity:

- accrued research and development expenses; and
- share-based compensation.

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Accordingly, we believe the policies set forth above are critical to fully understanding and evaluating our financial condition and results of operations. If actual results or events differ materially from the estimates, judgments and assumptions used by us in applying these policies, our reported financial condition and results of operations could be materially affected.

### Results of Operations

#### *Comparison of the Three Months Ended September 30, 2017 and 2016*

The following table summarizes our results of operations for the three months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Change
	2017	2016	
	(in thousands)		
Revenue	\$ —	\$ —	\$ —
Operating expenses:			
Research and development	9,751	4,717	5,034
General and administrative	2,430	1,350	1,080
Total operating expenses	12,181	6,067	6,114
Loss from operations	(12,181)	(6,067)	(6,114)
Other income (expense):			
Interest expense	(23)	(26)	3
Other income (expense), net	166	(6)	172
Total other income (expense), net	143	(32)	175
Net loss	<u>\$(12,038)</u>	<u>\$(6,099)</u>	<u>\$(5,939)</u>

#### *Research and Development Expenses*

	Three Months Ended September 30,		Change
	2017	2016	
	(in thousands)		
Direct research and development expenses by program:			
DCC-2618	\$ 5,453	\$ 1,378	\$4,075
DCC-3014	541	734	(193)
Rebastinib	117	325	(208)
Discontinued program	124	706	(582)
Unallocated expenses:			
Personnel related (including share-based compensation)	2,181	1,216	965
Facility related and other	1,335	358	977
Total research and development expenses	<u>\$ 9,751</u>	<u>\$ 4,717</u>	<u>\$5,034</u>

Expenses related to our DCC-2618 program increased as a result of increases in clinical trial costs of \$2.6 million, manufacturing costs of \$1.1 million and preclinical costs of \$0.4 million. The increase in clinical trial costs was primarily due to increased costs associated with the expansion cohorts of our Phase 1 clinical trial of DCC-2618 that began enrollment in May 2017. In addition, there was increased patient enrollment compared to the prior year in the dose escalation stage of our Phase 1 clinical trial of DCC-2618, which was initiated in the fourth quarter of 2015. Manufacturing costs increased in preparation for the expansion cohorts and planned pivotal Phase 3 trials. Preclinical costs increased primarily due to toxicology studies to support the planned pivotal Phase 3 trials.

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Expenses related to our discontinued program decreased due to the decision to wind-down the program in the fourth quarter of 2016.

The increase in personnel-related costs included in unallocated expenses was due to an increase in headcount in our research and development function. Personnel-related costs for the three months ended September 30, 2017 and 2016 included share-based compensation expense of \$0.5 million and \$0.2 million, respectively. The increase in facility-related and other costs included in unallocated expenses was primarily due to increased costs associated with our early-stage drug discovery programs.

### *General and Administrative Expenses*

	Three Months Ended September 30,		Change
	2017	2016	
	(in thousands)		
Personnel related (including share-based compensation)	\$ 1,265	\$ 721	\$ 544
Professional and consultant fees	883	448	435
Facility related and other	282	181	101
Total general and administrative expenses	<u>\$ 2,430</u>	<u>\$ 1,350</u>	<u>\$1,080</u>

The increase in personnel-related costs was primarily a result of an increase in headcount. Personnel-related costs for the three months ended September 30, 2017 and 2016 included share-based compensation expense of \$0.6 million and \$0.3 million, respectively. The increase in professional and consultant fees was primarily due to an increase in accounting and legal fees associated with ongoing business activities and our preparations to operate as a public company.

### *Comparison of the Nine Months Ended September 30, 2017 and 2016*

The following table summarizes our results of operations for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,		Change
	2017	2016	
	(in thousands)		
Revenue	\$ —	\$ —	\$ —
Operating expenses:			
Research and development	23,856	13,626	10,230
General and administrative	6,741	3,678	3,063
Total operating expenses	<u>30,597</u>	<u>17,304</u>	<u>13,293</u>
Loss from operations	<u>(30,597)</u>	<u>(17,304)</u>	<u>(13,293)</u>
Other income (expense):			
Interest expense	(72)	(81)	9
Other income (expense), net	297	2	295
Total other income (expense), net	<u>225</u>	<u>(79)</u>	<u>304</u>
Net loss	<u><u>\$ (30,372)</u></u>	<u><u>\$ (17,383)</u></u>	<u><u>\$ (12,989)</u></u>

[Table of Contents](#)**Research and Development Expenses**

	Nine Months Ended September 30,		Change
	2017	2016	
	(in thousands)		
Direct research and development expenses by program:			
DCC-2618	\$12,515	\$ 3,334	\$ 9,181
DCC-3014	1,820	2,502	(682)
Rebastinib	331	816	(485)
Discontinued program	594	3,035	(2,441)
Unallocated expenses:			
Personnel related (including share-based compensation)	5,486	2,997	2,489
Facility related and other	3,110	942	2,168
Total research and development expenses	<u>\$23,856</u>	<u>\$13,626</u>	<u>\$10,230</u>

Expenses related to our DCC-2618 program increased primarily as a result of increases in clinical trial costs of \$5.3 million and manufacturing costs of \$3.6 million. The increase in clinical trial costs was due to increased patient enrollment in the dose escalation stage of our Phase 1 clinical trial of DCC-2618, which was initiated in the fourth quarter of 2015. In addition, the expansion cohorts of our Phase 1 clinical trial of DCC-2618 began enrollment in May 2017. Manufacturing costs increased in preparation for the expansion cohorts and planned pivotal Phase 3 trials.

Expenses related to our DCC-3014 program decreased primarily as a result of a decrease in preclinical costs of \$1.4 million and a decrease in manufacturing costs of \$0.4 million, partially offset by an increase in clinical trial costs of \$1.1 million. The decrease in preclinical costs was primarily due to costs incurred in the prior year to support our investigational new drug application, or IND, submitted to the U.S. Food and Drug Administration, or FDA, in the fourth quarter of 2016. The decrease in manufacturing costs was primarily due to costs incurred in the prior year to increase our supply of clinical trial material in preparation for the initiation of the dose escalation stage of our Phase 1 clinical trial of DCC-3014, following our IND going into effect in the fourth quarter of 2016. The increase in clinical trial costs was primarily due to the initiation of the dose escalation stage of our Phase 1 clinical trial of DCC-3014 in the first quarter of 2017.

Expenses related to our discontinued program decreased due to decreases in manufacturing costs of \$1.6 million, in clinical trial costs of \$0.6 million and in preclinical costs of \$0.3 million. These decreases were related to the decision to wind-down our discontinued program in the fourth quarter of 2016.

The increase in personnel-related costs included in unallocated expenses was due to an increase in headcount in our research and development function. Personnel-related costs for the nine months ended September 30, 2017 and 2016 included share-based compensation expense of \$0.8 million and \$0.4 million, respectively. The increase in facility-related and other costs included in unallocated expenses was primarily due to increased costs of \$1.4 million incurred in connection with our early-stage drug discovery programs and increased consultant fees of \$0.3 million.

**General and Administrative Expenses**

	Nine Months Ended September 30,		Change
	2017	2016	
	(in thousands)		
Personnel related (including share-based compensation)	\$3,393	\$1,721	\$1,672
Professional and consultant fees	2,561	1,509	1,052
Facility related and other	787	448	339
Total general and administrative expenses	<u>\$6,741</u>	<u>\$3,678</u>	<u>\$3,063</u>

The increase in personnel-related costs was primarily a result of an increase in headcount. Personnel-related costs for the nine months ended September 30, 2017 and 2016 included share-based compensation expense of \$1.2 million and \$0.6 million, respectively. The increase in professional and consultant fees was primarily due to an increase in various advisory fees, including those related to business development, accounting and legal fees associated with ongoing business activities and our preparations to operate as a public company.

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[Table of Contents](#)**Liquidity and Capital Resources**

Since our inception, we have incurred significant operating losses. We have generated limited revenue to date from a concluded collaboration agreement and research and development grants from the KBA. We have not yet commercialized any of our drug candidates and we do not expect to generate revenue from sales of any drug candidates for several years, if at all. To date, we have funded our operations with proceeds from the sales of preferred shares, proceeds from the issuance of convertible notes, payments received under a concluded collaboration agreement, borrowings under a construction loan and research and development grants from the KBA. Through September 30, 2017, we had received net proceeds of \$227.6 million from our sales of preferred shares, \$31.1 million under a concluded collaboration agreement, \$2.8 million under a construction loan and \$1.9 million in research and development grants from the KBA. As of September 30, 2017, we had cash and cash equivalents of \$82.1 million.

In addition, on October 2, 2017, we completed the IPO, pursuant to which we issued and sold 7,500,000 shares of common stock at a public offering price of \$17.00 per share, resulting in proceeds of \$118.6 million after deducting underwriting discounts and commissions but before other offering expenses. On October 4, 2017, we issued and sold an additional 666,496 shares of our common stock at the IPO price of \$17.00 per share, pursuant to the underwriters partial exercise of their option to purchase additional shares of common stock, resulting in additional net proceeds of \$10.5 million after deducting underwriting discounts and commissions.

**Cash Flows**

As of September 30, 2017, our principal sources of liquidity were cash and investments of \$82.1 million.

The following table summarizes our sources and uses of cash and cash equivalents for each of the periods presented:

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Cash used in operating activities	\$(23,949)	\$(16,173)
Cash used in investing activities	(276)	(104)
Cash provided by financing activities	48,913	55,140
Net increase in cash and cash equivalents	<u>\$ 24,688</u>	<u>\$ 38,863</u>

**Operating Activities**

During the nine months ended September 30, 2017, operating activities used \$23.9 million of cash, primarily resulting from our net loss of \$30.4 million, offset by non-cash charges of \$2.1 million and cash provided by changes in our operating assets and liabilities of \$4.3 million. Net cash provided by changes in our operating assets and liabilities for the nine months ended September 30, 2017 consisted primarily of a \$4.1 million increase in accounts payable and accrued expenses and a decrease in prepaid expenses and other current assets of \$0.2 million.

During the nine months ended September 30, 2016, operating activities used \$16.2 million of cash, primarily resulting from our net loss of \$17.4 million, offset by non-cash charges of \$1.0 million and cash provided by changes in our operating assets and liabilities of \$0.2 million. Net cash provided by changes in our operating assets and liabilities for the nine months ended September 30, 2016 consisted primarily of a \$0.2 million increase in accounts payable and accrued expenses.

Changes in accounts payable, accrued expenses and prepaid expenses in all periods were generally due to growth in our business and the timing of vendor invoicing and payments.

**Investing Activities**

During the nine months ended September 30, 2017 and 2016, we used \$0.3 million and \$0.1 million, respectively, to purchase property and equipment.

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### *Financing Activities*

During the nine months ended September 30, 2017, net cash provided by financing activities was \$48.9 million, consisting primarily of net proceeds of \$51.9 million from the sale of series C preferred shares, partially offset by \$2.8 million of payments of initial public offering costs and \$0.1 million of repayments of notes payable to a related party.

During the nine months ended September 30, 2016, net cash provided by financing activities was \$55.1 million, consisting primarily of net proceeds of \$55.3 million from the sale of series B-2 preferred shares, partially offset by \$0.2 million of repayments of notes payable to a related party.

### *Construction Loan*

We are party to a loan agreement and a security agreement, each dated as of June 11, 2010, with Clinical Reference Laboratory, Inc., or CRL, a related party. The loan was assigned to CHC, Inc., a related party, in December 2016. As of September 30, 2017, and December 31, 2016, there was \$1.5 million and \$1.7 million, respectively, in principal outstanding under the loan.

### *Funding Requirements*

We expect our expenses to increase substantially in connection with our ongoing activities, particularly as we advance the preclinical activities and clinical trials for our drug candidates in development. In addition, we expect to incur additional costs associated with operating as a public company. The timing and amount of our operating expenditures will depend largely on:

- the timing and progress of preclinical and clinical development activities;
- successful enrollment in and completion of clinical trials;
- the timing and outcome of regulatory review of our drug candidates;
- the cost to develop companion diagnostics as needed for each of our drug candidates;
- our ability to establish agreements with third-party manufacturers for clinical supply for our clinical trials and, if any of our drug candidates are approved, commercial manufacturing;
- addition and retention of key research and development personnel;
- our efforts to enhance operational, financial and information management systems, and hire additional personnel, including personnel to support development of our drug candidates;
- the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution, for any of our drug candidates for which we obtain marketing approval;
- the legal patent costs involved in prosecuting patent applications and enforcing patent claims and other intellectual property claims; and
- the terms and timing of any collaboration, license or other arrangement, including the terms and timing of any milestone payments thereunder.

As of September 30, 2017, we had cash and cash equivalents of \$82.1 million. We believe that the net proceeds from the IPO, together with our existing cash and cash equivalents, will enable us to fund our operating expenses, capital expenditure requirements and debt service payments through the first half of 2019. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect.

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our operations through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. We do not currently have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. 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 acquisitions or capital expenditures or declaring dividends. 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 technologies, future revenue streams, research programs or drug candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or other arrangements when needed, we may be required to delay, limit, reduce or terminate our research, product development or future commercialization efforts or grant rights to develop and market drug candidates that we would otherwise prefer to develop and market ourselves.

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**Contractual Obligations and Commitments**

During the three months ended September 30, 2017, there have been no material changes to our contractual obligations and commitments outside the ordinary course of business from those described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commitments” in our final prospectus for our initial public offering filed pursuant to Rule 424(b)(4) under the Securities Act with the SEC on September 28, 2017.

**Off-Balance Sheet Arrangements**

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission.

**Recently Issued Accounting Pronouncements**

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 2 to our financial statements included in this Quarterly Report on Form 10-Q.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our cash and cash equivalents as of September 30, 2017 consisted of cash and money market accounts. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of interest rates. Because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on our financial position or results of operations. As of September 30, 2017, our outstanding indebtedness accrued interest at a fixed interest rate. As a result, a change in market interest rates would not have had any impact on our financial position or results of operations.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are not currently subject to any material legal proceedings.

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### **Item 1A. Risk Factors.**

*Our business is subject to numerous risks. You should carefully consider the risks and uncertainties described below together with all of the other information contained in this Quarterly Report on Form 10-Q, including our financial statements and the related notes, and in our other filings with the SEC. If any of the following risks actually occur, our business, prospects, operating results and financial condition could suffer materially. In such event, the trading price of our common stock could decline and you might lose all or part of your investment.*

#### **Risks Related to Our Financial Position and Need for Additional Capital**

*We have incurred significant operating losses since our inception and have not generated any revenue from product sales. We expect to incur continued losses for the foreseeable future and may never achieve or maintain profitability.*

Investment in pharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. We are a clinical-stage biopharmaceutical company that was formed and commenced operations in 2003. We have no approved products for commercial sale and have not generated any revenue from product sales to date. We continue to incur significant research and development and other expenses related to our ongoing operations. As a result, we have never been profitable and have incurred losses in each year since inception. For the years ended December 31, 2015 and 2016 and the nine months ended September 30, 2017, we reported a net loss of \$19.8 million, \$25.9 million and \$30.4 million, respectively. As of September 30, 2017, we had an accumulated deficit of \$176.0 million.

Since our inception, we have focused substantially all of our efforts and financial resources on developing our proprietary compound library, and the preclinical and clinical development of our drug candidates, DCC-2618, DCC-3014, rebastinib and our former drug candidate, which was discontinued and which we no longer plan to develop. To date, we have funded our operations primarily with proceeds from the sales of preferred shares, proceeds from the issuance of convertible notes, payments received under a concluded collaboration agreement, borrowings under a construction loan and research and development grants from the Kansas Bioscience Authority, or KBA. From our inception through September 30, 2017, we received an aggregate of \$263.4 million in net proceeds from such transactions. As of September 30, 2017, our cash and cash equivalents were \$82.1 million. In October 2017, we received gross proceeds of \$138.8 million from the sale of 8,166,496 shares of our common stock.

We expect to incur increasing levels of operating losses over the next several years and for the foreseeable future, particularly as we advance our drug candidates. Our prior losses, combined with expected future losses, have had, and will continue to have, an adverse effect on our stockholders' equity and working capital. We expect our research and development expenses to significantly increase in connection with our additional clinical trials for DCC-2618, DCC-3014 and rebastinib, and development of any other future drug candidates we may choose to pursue. In addition, if we obtain marketing approval for DCC-2618, or any of our other drug candidates, we will incur significant sales, marketing and outsourced manufacturing expenses. We will also incur additional costs associated with operating as a public company. As a result, we expect to continue to incur significant and increasing operating losses for the foreseeable future. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the extent of any future losses or when we will become profitable, if at all. Even if we do become profitable, we may not be able to sustain or increase our profitability on a quarterly or annual basis.

Our ability to become profitable depends upon our ability to generate revenue. To date, we have not generated any revenue from our drug candidates, and we do not know when, or if, we will generate any revenue. We do not expect to generate significant revenue unless and until we obtain marketing approval for, and begin to sell, DCC-2618, or our other drug candidates. Our ability to generate revenue depends on a number of factors, including, but not limited to, our ability to:

- initiate and successfully complete our Phase 3 clinical trials of DCC-2618 for the treatment of gastrointestinal stromal tumors, or GIST;
- initiate and successfully complete other later-stage clinical trials that meet their clinical endpoints;
- initiate and successfully complete all safety studies required to obtain U.S. and foreign marketing approval for DCC-2618 as a treatment for GIST or other indications;
- subject to obtaining favorable results from our Phase 3 trials, applying for and obtaining marketing approval for DCC-2618;
- successfully manufacture or contract with others to manufacture DCC-2618 and our other our drug candidates;
- commercialize DCC-2618, if approved, by building a sales force or entering into collaborations with third parties;
- obtain, maintain, protect and defend our intellectual property portfolio; and
- achieve market acceptance of DCC-2618 in the medical community and with third-party payors.



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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 preclinical testing and clinical trials for our drug candidates, discovering additional drug candidates, establishing arrangements with third parties for the manufacture of clinical supplies of our drug candidates, obtaining marketing approval for our drug candidates and manufacturing, marketing and selling any products for which we may obtain marketing 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 revenues that are significant enough to achieve profitability.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to accurately predict the timing or amount of increased expenses we will incur or when, or if, we will be able to achieve profitability. If we are required by the U.S. Food and Drug Administration, or FDA, the European Medicines Agency, or EMA, or other regulatory authorities to perform studies in addition to those currently expected, or if there are any delays in establishing appropriate manufacturing arrangements for, or in completing our clinical trials for, or the development of any of our drug candidates, our expenses could increase materially.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would cause significant harm to our financial position, adversely impact our stock price and impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or even continue our operations. A decline in the value of our company could also cause you to lose all or part of your investment.

***We will require substantial additional funding. If we are unable to raise capital when needed, or on attractive terms, we could be forced to delay, reduce or eliminate our research or drug development programs or any future commercialization efforts.***

We expect our expenses to increase substantially in connection with our ongoing activities, particularly as we advance our drug candidates, DCC-2618, DCC-3014 and rebastinib, and seek to identify lead drug candidates in our discovery programs. We expect increased expenses as we continue our research and development and initiate additional clinical trials, and establish arrangements with third parties for the manufacture of clinical supplies of and seek marketing approval for, our lead program and our other drug candidates. In addition, if we obtain marketing approval for any of our drug candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. Furthermore, we expect 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 or drug development programs or any future commercialization efforts.

We believe that the net proceeds from our initial public offering completed in October 2017, together with our existing cash and cash equivalents, will enable us to fund our operating expenses, capital expenditure requirements and debt service payments through the first half of 2019. 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 scope, progress, costs and results of our clinical trials of DCC-2618;
- the scope, progress, costs and results of drug discovery, preclinical development and clinical trials for our other drug candidates;
- the number and development requirements of other drug candidates that we pursue, including ones we may acquire from third parties;
- the costs and timing of arrangements with third parties for the manufacture of clinical supplies of DCC-2618 and our other drug candidates;
- the costs, timing and outcome of regulatory review of DCC-2618 and our other drug candidates;
- the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution, for DCC-2618 and any of our other drug candidates for which we obtain marketing approval;
- the revenue, if any, received from commercial sales of DCC-2618 and our other drug candidates for which we obtain marketing approval;

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- the costs and timing of preparing, filing and prosecuting any patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims;
- our ability to establish collaboration arrangements with other biotechnology or pharmaceutical companies on favorable terms, if at all, for the development or commercialization of our drug candidates; and
- the extent to which we acquire or in-license other drug candidates, technologies and associated intellectual property rights.

Identifying potential drug candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our drug candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to obtain substantial additional funds to achieve our business objectives. Adequate additional funds may not be available to us on acceptable terms, or at all.

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

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and marketing, distribution or licensing arrangements. We do not currently have any committed external source of funds. In addition, we may seek additional capital due to favorable market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of your securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. 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 acquisitions or capital expenditures or declaring dividends.

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 technologies, future revenue streams, research programs or drug candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or other arrangements when needed, we may be required to delay, limit, reduce or terminate our research, product development or future commercialization efforts or grant rights to develop and market drug candidates that we would otherwise prefer to develop and market ourselves.

***We have a limited operating history, have not successfully completed late-stage clinical trials for any drug candidate, have not generated revenue from product sales or profits and do not expect to generate revenue or profits for the foreseeable future. We may never obtain approval for any of our drug candidates or achieve or sustain profitability.***

We commenced operations in 2003. Our operations to date have been limited to organizing and staffing our company, business planning, raising capital, conducting research and development, filing patents, identifying potential drug candidates, including five clinical candidates, undertaking preclinical studies, initiating and conducting clinical trials and establishing arrangements with third parties for the manufacture of initial quantities of our drug candidates. We have not yet demonstrated our ability to successfully complete any Phase 2 or Phase 3 clinical trials, obtain marketing approvals, manufacture a commercial scale product, or arrange for a third party to do so on our behalf, or conduct sales, marketing and distribution activities necessary for successful product commercialization, and we have not generated revenue from product sales or profit from our operations. Consequently, we may never achieve or sustain profitability and any predictions you make about our future success or viability may not be as accurate as they could be if we had an operating history with these activities.

In addition, as a growing business entering into new stages of pharmaceutical development, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. We will need to transition at some point from a company with a research and development focus to a company capable of supporting commercial activities. There can be no assurance that we will be successful in such a transition.

## **Risks Related to the Discovery and Development of Our Drug Candidates**

*We are early in our development efforts and our drug candidates are only in Phase 1 clinical trials. All of our drug candidates target inhibition of the activation switch in kinases. If we are unable to commercialize our drug candidates or experience significant delays in doing so, our business will be materially harmed.*

We currently have no products that are approved for sale and have discontinued one of our programs, which we no longer plan to develop. We are early in our development efforts and our three drug candidates are all in Phase 1 clinical trials. All of our drug candidates target inhibition of the activation switch in kinases. There are no currently approved kinase switch control inhibitors and there can be no assurance that kinase switch control inhibitors will ever receive regulatory approval. Our discontinued drug candidate was also based on inhibition of the activation switch in kinases. Its development was discontinued due to strategic and competitive reasons, and there can be no assurance that our current drug candidates will achieve success in their clinical trials or obtain regulatory approval.

Our ability to generate product revenues, which we do not expect will occur for many years, if ever, will depend heavily on the successful development and eventual commercialization of one or more of our drug candidates. The success of our drug candidates, including DCC-2618, will depend on several factors, including the following:

- successful completion of preclinical studies and clinical trials;
- receipt and related terms of marketing approvals from applicable regulatory authorities;
- raising additional funds necessary to complete clinical development of and commercialize our drug candidates;
- obtaining and maintaining patent, trade secret and other intellectual property protection and regulatory exclusivity for our drug candidates;
- making arrangements with third-party manufacturers, or establishing manufacturing capabilities, for both clinical and commercial supplies of our drug candidates;
- developing and implementing marketing and reimbursement strategies;
- establishing sales, marketing and distribution capabilities and launching commercial sales of our products, if and when approved, whether alone or in collaboration with others;
- acceptance of our products, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies;
- the ability to obtain clearance or approval of companion diagnostic tests, if required, on a timely basis, or at all;
- obtaining and maintaining third-party coverage and adequate reimbursement;
- protecting and enforcing our rights in our intellectual property portfolio; and
- maintaining a continued acceptable safety profile of the products following approval.

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our drug candidates, which would materially harm our business. For example, our business could be harmed if results of the expansion stage of our Phase 1 clinical trial of DCC-2618 vary meaningfully from our expectations.

*Clinical drug development involves a lengthy and expensive process. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of DCC-2618 and our other drug candidates.*

We currently have three drug candidates in clinical development and their risk of failure is high. We are unable to predict when or if any of our drug candidates will prove effective or safe in humans or will obtain marketing approval. Before obtaining marketing approval from regulatory authorities for the sale of any drug candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our drug candidates in humans. Clinical testing is expensive, difficult to design and implement and can take many years to complete and is uncertain as to the outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. In particular, the small number of patients in our early clinical trials may make the results of these trials less predictive of the outcome of later clinical trials. In addition, although we observed encouraging disease control rates in the dose escalation stage of our Phase 1 trial of DCC-2618, the primary objectives were to determine the safety, tolerability and maximum tolerated dose of DCC-2618 and to determine a recommended

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Phase 2 dose and not to demonstrate efficacy. The assessments of efficacy from the dose escalation portion of our Phase 1 clinical trial of DCC-2618 were not designed to demonstrate statistical significance and may not be predictive of the results of further clinical trials of DCC-2618 or any of our other drug candidates. We did not observe a maximum tolerated dose in the dose escalation stage of our Phase 1 trial of DCC-2618. The FDA has stated that our plan to initiate our Phase 3 trial prior to the completion of our Phase 1 trial, and with limited dose-response information at the various dose levels, may place our development program at risk if we have not identified the optimal dosing regimen.

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to obtain marketing approval or commercialize our drug candidates, including:

- regulators may not authorize us to commence or continue a clinical trial through the imposition of a clinical hold or may limit the conduct of a clinical trial through the imposition of a partial clinical hold;
- institutional review boards, or IRBs, may not authorize us or our investigators to commence or continue a clinical trial at a prospective trial site;
- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;
- clinical trials for our drug candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials, delay planned trials or abandon product development programs;
- the number of patients required for clinical trials for our drug candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate, participants may drop out of these clinical trials at a higher rate than we anticipate or the duration of these clinical trials may be longer than we anticipate;
- our third-party contractors may fail to meet their contractual obligations to us in a timely manner, or at all;
- we may have to suspend or terminate clinical trials for our drug candidates for various reasons, including a finding that the participants are being exposed to unacceptable health risks;
- our drug candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or IRBs to suspend or terminate the trials;
- the cost of clinical trials for our drug candidates may be greater than we anticipate; and
- the supply or quality of our drug candidates or other materials necessary to conduct clinical trials for our drug candidates may be insufficient or inadequate and result in delays or suspension of our clinical trials.

Our product development costs will increase if we experience delays in preclinical studies or clinical trials or in obtaining marketing approvals. We do not know whether any of our planned preclinical studies or clinical trials will begin on a timely basis or at all, will need to be restructured or will be completed on schedule, or at all. For example, the FDA imposed a partial clinical hold on our Phase 3 clinical trial of DCC-2618 in fourth-line GIST, which limits enrollment to not more than 50 patients until we submit draft toxicology reports to the FDA and wait 30 days for any FDA response to this submission. Our ongoing Phase 1 trial of DCC-2618 continues to generate additional data which also may be requested by the FDA. The FDA may request additional information or data and any such requests could result in clinical trial delays. Furthermore, the FDA could place a clinical hold, either another partial clinical hold or a full clinical hold, on our DCC-2618 Phase 3 trial if they are not satisfied with the information we provide to them, which could result in delays for the trial. Significant preclinical or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our drug candidates or allow our competitors to bring products to market before we do and impair our ability to successfully commercialize our drug candidates and may harm our business and results of operations.

We may utilize companion diagnostics in our planned clinical trials in the future in order to identify appropriate patient populations for our drug candidates. If a satisfactory companion diagnostic is not commercially available, we may be required to create or obtain one that would be subject to regulatory approval requirements. The process of obtaining or creating such diagnostic is time consuming and costly.

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### ***We may ultimately be unable to complete the development and commercialization of our drug candidates.***

We may be required to conduct additional clinical trials or other testing of our drug candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials for our drug candidates or other testing, obtain results of these trials or tests that are not positive or are only modestly positive or if there are safety concerns. For example, in GIST, we plan to initiate two pivotal Phase 3 trials of DCC-2618, one in fourth-line GIST and another in second-line GIST; however, the FDA may require us to conduct a clinical trial in third-line GIST before we may conduct one in second-line GIST. In addition, while we plan to conduct only one pivotal Phase 3 trial for each indication of fourth-line GIST and second-line GIST, for a single randomized trial to support submission to the FDA of a new drug application, or NDA, the trial must be well-designed, well-conducted, with a favorable risk/benefit ratio, and provide statistically persuasive efficacy findings so compelling that a second trial would be unethical or practically impossible to repeat. In addition, certain data that we have presented to date have been generated and reviewed at the clinical sites and are preliminary. The data may be subject to subsequent central review, and based on that review, there may be changes to these data which may not be favorable. For example, in our ongoing Phase 1 clinical trial of DCC-2618, there have been differences observed between imaging data assessed at the clinical sites in accordance with the Phase 1 protocol and by central review, including some instances where central review's findings regarding the number of objective responses were less favorable than those previously reported. In addition to certain imaging results from our Phase 1 trial, we also plan to have all of the data from our Phase 3 trials of DCC-2618 centrally reviewed. The results from our Phase 3 trials of DCC-2618 in which all data will be subject to central review may be less favorable than the results of the escalation stage of our Phase 1 trial of DCC-2618 that were based on data that has not been subject to central review. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their drug candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their products.

We may:

- be delayed in obtaining marketing approval for DCC-2618 or our other drug candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings;
- be subject to additional post-marketing testing requirements; or
- have the product removed from the market after obtaining marketing approval.

### ***If we experience delays or difficulties in the enrollment of patients in clinical trials, including in our Phase 3 clinical trials of DCC-2618, our receipt of necessary marketing approvals could be delayed or prevented.***

We may not be able to initiate or continue clinical trials for our drug candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside of the United States. In particular, most of the GIST patients we have enrolled in our Phase 1 trial of DCC-2618 have been fourth-line GIST patients. However, we intend to enroll second-line GIST patients in our Phase 1 expansion trial and in a future Phase 3 trial. We cannot predict how difficult it will be to enroll GIST patients for future trials in earlier lines of therapy such as second- and third-line GIST where alternative therapies already are approved. Therefore, our ability to identify and enroll eligible patients for these clinical trials and possibly other clinical trials may be limited or may result in slower enrollment than we anticipate. In addition, some of our competitors have ongoing, or planned, clinical trials for drug candidates that treat the same indications as our drug candidates, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials for our competitors' drug candidates. Patient enrollment is affected by other factors including:

- the severity of the disease under investigation;
- the eligibility criteria for the trial in question;
- the perceived risks and benefits of the drug candidates under study;
- the efforts to facilitate timely enrollment in clinical trials;
- the patient referral practices of physicians;
- the burden on patients due to inconvenient procedures;
- the ability to monitor patients adequately during and after treatment; and
- the proximity and availability of clinical trial sites for prospective patients.

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Our inability to enroll a sufficient number of patients for our clinical trials would result in significant delays and could require us to abandon one or more clinical trials altogether. Enrollment delays in our clinical trials may result in increased development costs for our drug candidates, which would cause significant harm to our financial position, adversely impact our stock price and impair our ability to raise capital.

***If serious adverse or unacceptable side effects are identified during the development of our drug candidates, we may need to abandon or limit our development of some of our drug candidates.***

If our drug candidates are associated with serious adverse events or undesirable side effects in clinical trials or have characteristics that are unexpected, we may need to abandon their development or limit development to more narrow uses or subpopulations in which the serious adverse events, undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. In pharmaceutical development, many drugs that initially show promise in early-stage testing for treating cancer may later be found to cause side effects that prevent further development of the drug. Currently marketed therapies for the treatment of cancer are generally limited to some extent by their toxicity. In addition, some of our drug candidates would be chronic therapies or be used in pediatric populations, for which safety concerns may be particularly important. Use of our drug candidates as monotherapies may also result in adverse events consistent in nature with other marketed therapies. In addition, if used in combination with other therapies in the future, our drug candidates may exacerbate adverse events associated with the therapy. If serious adverse or unexpected side effects are identified during development, we may be required to develop a Risk Evaluation and Mitigation Strategy, or REMS, to mitigate those serious safety risks, which could impose significant distribution and/or use restrictions on our products.

***If we are unable to successfully develop companion diagnostic tests for our drug candidates that require such tests, or experience significant delays in doing so, we may not realize the full commercial potential of these drug candidates.***

We may develop either by ourselves or with collaborators in vitro companion diagnostic tests for our drug candidates for certain indications. To be successful, we or our collaborators will need to address a number of scientific, technical, regulatory and logistical challenges. The FDA regulates in vitro companion diagnostics as medical devices that will likely be subject to clinical trials in conjunction with the clinical trials for our drug candidates, and which will require regulatory clearance or approval prior to commercialization. We may rely on third parties for the design, development and manufacture of companion diagnostic tests for our therapeutic drug candidates that require such tests. If these parties are unable to successfully develop companion diagnostics for these therapeutic drug candidates, or experience delays in doing so, the development of these therapeutic drug candidates may be adversely affected, these therapeutic drug candidates may not obtain marketing approval, and we may not realize the full commercial potential of any of these therapeutics that obtain marketing approval. As a result, our business, results of operations and financial condition could be materially harmed.

***The failure to obtain required regulatory clearances or approvals for any companion diagnostic tests that we may pursue may prevent or delay approval of any of our drug candidates. Moreover, the commercial success of any of our drug candidates that require a companion diagnostic will be tied to the receipt of any required regulatory clearances or approvals and the continued availability of such tests.***

In connection with the clinical development of our drug candidates for certain indications we may work with collaborators to develop or obtain access to in vitro companion diagnostic tests to identify appropriate patients for our drug candidates. We may rely on third parties for the development, testing and manufacturing of these companion diagnostics, the application for and receipt of any required regulatory clearances or approvals, and the commercial supply of these companion diagnostics. Our third-party collaborators may fail to obtain the required regulatory clearances or approvals, which could prevent or delay approval of our drug candidates. In addition, the commercial success of any of our drug candidates that require a companion diagnostic will be tied to and dependent upon the receipt of required regulatory clearances or approvals and the continued ability of such third parties to make the companion diagnostic commercially available to us on reasonable terms in the relevant geographies.

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

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

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### ***We may not be successful in our efforts to discover additional potential drug candidates.***

A key element of our strategy is to apply our proprietary knowledge and our understanding of the structure, biology and activity of kinase inhibitors that target the switch pocket to develop drug candidates. The therapeutic discovery activities that we are conducting may not be successful in identifying drug candidates that are useful in treating cancer or other diseases. Our research programs may initially show promise in identifying potential drug candidates, yet fail to yield drug candidates for clinical development for a number of reasons, including:

- the research methodology used may not be successful in identifying potential drug candidates;
- potential drug candidates may, on further study, be shown to have harmful side effects or other characteristics that indicate that they are unlikely to be drugs that will obtain marketing approval or achieve market acceptance; or
- potential drug candidates may not be effective in treating their targeted diseases.

Research programs to identify new drug candidates require substantial technical, financial and human resources. We may choose to focus our efforts and resources on a potential drug candidate that ultimately proves to be unsuccessful. If we are unable to identify suitable drug candidates for preclinical and clinical development, we will not be able to obtain revenues from sale of products in future periods, which likely would result in significant harm to our financial position and adversely impact our stock price.

### **Risks Related to the Commercialization of Our Drug Candidates**

***The incidence and prevalence for target patient populations of our drug candidates have not been established with precision. If the market opportunities for our drug candidates are smaller than we estimate or if any approval that we obtain is based on a narrower definition of the patient population, our revenue potential and ability to achieve profitability will be adversely affected.***

The precise incidence and prevalence for GIST, advanced systemic mastocytosis, or ASM, gliomas, including glioblastoma multiforme, or GBM, and other solid tumors driven by KIT or PDGFR $\alpha$  are unknown. Our projections of both the number of people who have these diseases, as well as the subset of people with these diseases who have the potential to benefit from treatment with our drug candidates, are based on estimates.

The total addressable market opportunity for DCC-2618, DCC-3014, rebastinib and any other drug candidates we may produce will ultimately depend upon, among other things, the diagnosis criteria included in the final label for each such drug candidate, if our drug candidates are approved for sale for these indications, acceptance by the medical community and patient access, drug pricing and reimbursement. The number of patients in our targeted commercial markets and elsewhere may turn out to be lower than expected, patients may not be otherwise amenable to treatment with our drugs, or new patients may become increasingly difficult to identify or gain access to, all of which would adversely affect our results of operations and our business.

***Even if any of our drug candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success.***

If any of our drug candidates receives marketing approval, it may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. For example, current cancer treatments, such as existing targeted therapies, chemotherapy, and radiation therapy, are well established in the medical community, and doctors may continue to rely on these treatments. If our drug candidates do not achieve an adequate level of acceptance, we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of our drug candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy and potential advantages compared to alternative treatments;
- the prevalence and severity of any side effects, in particular compared to alternative treatments;
- our ability to offer our products for sale at competitive prices;
- the convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support;
- the existence of distribution and/or use restrictions, such as through a REMS;

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- the availability of third-party coverage and adequate reimbursement;
- the timing of any marketing approval in relation to other product approvals;
- support from patient advocacy groups; and
- any restrictions on the use of our products together with other medications.

***If we are unable to establish sales and marketing capabilities, we may not be successful in commercializing our drug candidates if and when they are approved.***

We do not have a sales or marketing infrastructure and have no experience in the sale, marketing or distribution of biopharmaceutical products. To achieve commercial success for any product for which we obtain marketing approval, we will need to establish sales, marketing and distribution capabilities, either ourselves or through collaboration or other arrangements with third parties.

We plan to build our own focused, specialized sales and marketing organization in the United States and to selectively establish partnerships in markets outside the United States to support the commercialization of drug candidates for which we obtain marketing approval and that can be commercialized with such capabilities.

There are risks involved with establishing our own sales and marketing capabilities. For example, recruiting and training a sales force is expensive and time-consuming and could delay any product launch. If the commercial launch of a drug candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. These efforts are expected to be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our products on our own include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- our inability to raise financing necessary to build our commercialization infrastructure;
- the inability of sales personnel to obtain access to physicians or persuade an adequate number of physicians to prescribe any future products;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

As a result of any potential partnerships in markets outside of the United States, or if we are unable to establish our own sales and marketing capabilities in the United States and instead enter into arrangements with third parties to perform these services, our product revenues and our profitability, if any, are likely to be lower than if we were to market and sell any products that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to market and sell our drug candidates or may be unable to do so on terms that are acceptable to us. We likely will have little control over such third parties, and any of these third parties may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales and marketing capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing any of our drug candidates for which we receive marketing approval.

***We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do.***

The development and commercialization of new pharmaceutical and biotechnology products is highly competitive. We face competition with respect to our current drug candidates, and will face competition with respect to any drug candidates that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. There are a number of large pharmaceutical and biotechnology companies that currently market and sell products or are pursuing the development of products for the treatment of the disease indications for which we are developing our drug candidates. Some of these competitive products and therapies are based on scientific approaches that are similar to our approach, and others are based on entirely different approaches. Potential competitors also include academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization.



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Specifically, there are a large number of pharmaceutical and biotechnology companies developing or marketing treatments for cancer that would be competitive with the drug candidates we are developing, if our drug candidates are approved. Many of these companies are developing cancer therapeutics that are also kinase inhibitors. Although there are currently marketed drugs that have activity in GIST through their targeting of primary and secondary KIT mutants, no currently marketed drug directly targets certain secondary resistance mutations in KIT and PDGFR $\alpha$ , or provides coverage of all KIT and PDGFR $\alpha$  mutants. With respect to DCC-2618, there are a number of large pharmaceutical companies and biotechnology companies marketing small molecule drugs for the treatment of GIST, including Novartis AG, Pfizer Inc., and Bayer AG. We are also aware of pharmaceutical and biotechnology companies developing drugs for the treatment of GIST and systemic mastocytosis including AB Science S.A., Arog Pharmaceuticals, Inc., ARIAD Pharmaceuticals, Inc., a wholly owned subsidiary of Takeda Pharmaceuticals U.S.A., Blueprint Medicines Corporation, Celldex Therapeutics, Inc., Novartis AG, and Plexxikon Inc., a wholly owned subsidiary of Daiichi Sanyo Company, Limited. Further, there are a large number of pharmaceutical and biotechnology companies developing antibody or small molecule colony stimulating factor receptor 1, or CSF1R, inhibitors that we are seeking to target in our DCC-3014 program, including Array BioPharma Inc., Amgen Inc., Eli Lilly and Company, Bristol-Myers Squibb Company, Five Prime Therapeutics, Inc., Roche Holding Ltd, Novartis AG, Plexxikon Inc. and Syndax Pharmaceuticals, Inc.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are approved for broader indications or patient populations, are more convenient or are less expensive than any products that we may develop. Our competitors also may obtain FDA or other marketing approval for their products more rapidly than any approval we may obtain for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. In addition, our ability to compete may be affected in many cases by insurers or other third-party payors seeking to encourage the use of generic products. Generic products are currently on the market for some of the indications that we are pursuing, and additional products are expected to become available on a generic basis over the coming years. If our drug candidates achieve marketing approval, we expect that they will be priced at a significant premium over any competitive generic products.

Many of the companies against which we are competing or against which we may compete in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining marketing approvals and marketing and selling approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. 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, management and sales and marketing personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

***Even if we are able to commercialize any drug candidates, the products may become subject to unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives, which would harm our business.***

The regulations that govern marketing approvals, pricing, coverage and reimbursement for new drug products vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our drug candidate to other available therapies. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a drug candidate in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues, if any, we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more drug candidates, even if such drug candidates obtain marketing approval.

Our ability to commercialize any drug candidates successfully also will depend in part on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government healthcare programs, private health insurers and other organizations. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, government authorities and third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. Coverage and reimbursement may not be available for any product that we commercialize and, even if these are available, the level of reimbursement may not be satisfactory. Reimbursement may affect the demand for, or the

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price of, any drug candidate for which we obtain marketing approval. Obtaining and maintaining adequate reimbursement for our products may be difficult. We may be required to conduct expensive pharmacoeconomic studies to justify coverage and reimbursement or the level of reimbursement relative to other therapies. If coverage and adequate reimbursement are not available or reimbursement is available only to limited levels, we may not be able to successfully commercialize any drug candidate for which we obtain marketing approval.

There may be significant delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or similar regulatory authorities outside of the United States. Moreover, eligibility for coverage and reimbursement does not imply that a drug will be paid for in all cases or at a rate that covers our costs, including research, development, intellectual property, manufacture, sale and distribution expenses. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs and may be incorporated into existing payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement policies. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

### ***Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any products that we may develop.***

We face an inherent risk of product liability exposure related to the testing of our drug candidates in human clinical trials and will face an even greater risk if we commercialize any products that we may develop. If we cannot successfully defend ourselves against any claims that our drug candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any drug candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any products that we may develop.

We currently hold \$4.0 million in product liability insurance coverage in the aggregate for the United States and certain other jurisdictions, with a per incident limit of \$4.0 million, which may not be adequate to cover all liabilities that we may incur. We likely will need to increase our insurance coverage as we expand our clinical trials or if we commence commercialization of our drug candidates. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

### **Risks Related to Our Dependence on Third Parties**

***We may enter into collaborations with third parties for the development and commercialization of our drug candidates. If those collaborations are not successful, we may not be able to capitalize on the market potential of these drug candidates.***

We have in the past, and may in the future, seek third-party collaborators for the development and commercialization of some of our drug candidates on a selected basis. Our likely collaborators for any collaboration arrangements include large and mid-size pharmaceutical companies, regional and national pharmaceutical companies and biotechnology companies.

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If we do enter into any such arrangements with any third parties, we will likely have limited control over the amount and timing of resources that our collaborators dedicate to the development or commercialization of our drug candidates. Our ability to generate revenues from these arrangements will depend on our collaborators' abilities and efforts to successfully perform the functions assigned to them in these arrangements. Collaborations involving our drug candidates would pose numerous risks to us, including the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations and may not perform their obligations as expected;
- collaborators may deemphasize or not pursue development and commercialization of our drug candidates or may elect not to continue or renew development or commercialization programs based on clinical trial results, changes in the collaborators' strategic focus, including as a result of a sale or disposition of a business unit or development function, or available funding or external factors such as an acquisition that diverts resources or creates competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a drug candidate, repeat or conduct new clinical trials or require a new formulation of a drug candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our products or drug candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;
- a collaborator with marketing and distribution rights to multiple products may not commit sufficient resources to the marketing and distribution of our product relative to other products;
- collaborators may not properly obtain, maintain, defend or enforce our intellectual property rights or may use our proprietary information and intellectual property in such a way as to invite litigation or other intellectual property related proceedings that could jeopardize or invalidate our proprietary information and intellectual property or expose us to potential litigation or other intellectual property related proceedings;
- disputes may arise between the collaborators and us that result in the delay or termination of the research, development or commercialization of our products or drug candidates or that result in costly litigation or arbitration that diverts management attention and resources;
- collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable drug candidates;
- collaboration agreements may not lead to development or commercialization of drug candidates in the most efficient manner or at all; and
- if a collaborator of ours were to be involved in a business combination, the continued pursuit and emphasis on our product development or commercialization program could be delayed, diminished or terminated.

***If we are not able to establish collaborations, we may have to alter our development and commercialization plans.***

Our drug development programs and the potential commercialization of our drug candidates will require substantial additional cash to fund expenses. In the past, we have been party to a collaboration agreement, which was concluded before completion because our collaboration partner elected not to pursue the development of the drug candidate beyond Phase 1 clinical trials. For some of our drug candidates, we may in the future decide to collaborate with pharmaceutical and biotechnology companies for the development and potential commercialization of those drug candidates.

We face significant competition in seeking appropriate collaborators. Our ability to reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of a number of factors. Those factors may include the following:

- the design or results of clinical trials;
- the likelihood of approval by the FDA or similar regulatory authorities outside of the United States;
- the potential market for the subject drug candidate;
- the costs and complexities of manufacturing and delivering such drug candidate to patients;
- the potential of competing products;
- the existence of uncertainty with respect to our ownership of technology or other rights, which can exist if there is a challenge to such ownership without regard to the merits of the challenge; and
- industry and market conditions generally.

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The collaborator may also consider alternative drug candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our drug candidate. We may also be restricted under any license agreements from entering into agreements on certain terms or at all with potential collaborators. Collaborations are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators and changes to the strategies of the combined company.

We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all. If we are unable to do so, we may have to curtail the development of such drug candidate, reduce or delay one or more of our other development programs, delay the potential commercialization or reduce the scope of any sales or marketing activities for such drug candidate, or increase our expenditures and undertake development, manufacturing or commercialization activities at our own expense. If we elect to increase our expenditures to fund development, manufacturing 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 may not be able to further develop our drug candidates or bring them to market and generate product revenue.

***We rely, and expect to continue to rely, on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials.***

We currently rely on various third-party clinical research organizations, or CROs, to conduct our ongoing Phase 1 clinical trials for DCC-2618 and DCC-3014 and do not plan to independently conduct any clinical trials for our other drug candidates. We expect to continue to rely on third parties, such as CROs, clinical data management organizations, medical institutions and clinical investigators, to conduct our clinical trials. Agreements with these third parties might terminate for a variety of reasons, including a failure to perform by the third parties. If we need to enter into alternative arrangements, that would delay our product development activities.

Our reliance on these third parties for research and development activities will reduce our control over these activities but will not relieve us of our responsibilities. For example, we will remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with requirements, commonly referred to as good clinical practices, or GCPs, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected.

Furthermore, these third parties may have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we will not be able to obtain, or may be delayed in obtaining, marketing approvals for our drug candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our drug candidates.

***Manufacturing pharmaceutical products is complex and subject to product loss for a variety of reasons. We contract with third parties for the manufacture of our drug candidates for preclinical testing and clinical trials and expect to continue to do so for commercialization. This reliance on third parties increases the risk that we will not have sufficient quantities of our drug candidates or products or such quantities at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts.***

We do not have any manufacturing facilities. We produce in our laboratory very small quantities of small molecules for evaluation in our research programs. We rely, and expect to continue to rely, on third parties for the manufacture of our drug candidates for preclinical and clinical testing, as well as for commercial manufacture if any of our drug candidates obtain marketing approval. Some of our manufacturers represent our sole source of supply. This reliance on third parties increases the risk that we will not have sufficient quantities of our drug candidates or products or such quantities at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts.

We may be unable to establish any agreements with third-party manufacturers or to do so on acceptable terms. Even if we are able to establish agreements with third-party manufacturers, reliance on third-party manufacturers entails additional risks, including:

- reliance on the third party for regulatory, compliance and quality assurance;
- the possible breach of the manufacturing agreement by the third party;
- the possible misappropriation of our proprietary information, including our trade secrets and know how; and
- the possible termination or nonrenewal of the agreement by the third party at a time that is costly or inconvenient for us.

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We have only limited supply arrangements in place with respect to our drug candidates, and these arrangements do not extend to commercial supply. We acquire many key materials on a purchase order basis. As a result, we do not have long-term committed arrangements with respect to our drug candidates and other materials. If we obtain marketing approval for any of our drug candidates, we will need to establish an agreement for commercial manufacture with a third party.

Third-party manufacturers may not be able to comply with current good manufacturing practices, or cGMP, regulations or similar regulatory requirements outside of the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of drug candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products.

Our drug candidates and any products that we may develop may compete with other drug candidates and products for access to manufacturing facilities. As a result, we may not obtain access to these facilities on a priority basis or at all. There are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing for us.

We have not yet scaled up the manufacturing process for any of our drug candidates. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered in our drug candidates or in the manufacturing facilities in which our drug candidates are made, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination.

Any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval. We do not currently have arrangements in place for redundant supply or a second source for bulk drug substance. If our current contract manufacturers for preclinical and clinical testing cannot perform as agreed, we may be required to replace such manufacturers. Although we believe that there are several potential alternative manufacturers who could manufacture our drug candidates, we may incur added costs and delays in identifying and qualifying any such replacement manufacturer or be able to reach agreement with any alternative manufacturer.

Our current and anticipated future dependence upon others for the manufacture of our drug candidates or products may adversely affect our future profit margins and our ability to commercialize any products that obtain marketing approval on a timely and competitive basis.

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

*If we are unable to obtain and maintain sufficient patent protection for our drug candidates, or if the scope of the patent protection is not sufficiently broad, third parties, including our competitors, could develop and commercialize products similar or identical to ours, and our ability to commercialize our drug candidates successfully may be adversely affected.*

Our success depends in large part on our ability to protect our proprietary technologies that we believe are important to our business, including pursuing and maintaining patent protection intended to cover the composition of matter of our drug candidates, for example, DCC-2618, DCC-3014 and rebastinib, their methods of use, related technologies and other inventions that are important to our business. In addition to patent protection, we also rely on trade secrets to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection, including our proprietary kinase switch control inhibitor platform. If we do not adequately obtain, maintain, protect or enforce our intellectual property, third parties, including our competitors, may be able to erode or negate any competitive advantage we may have, which could harm our business and ability to achieve profitability.

The patent application and approval process is expensive, time-consuming and complex. We may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection.

Furthermore, the patent position of biotechnology and pharmaceutical companies generally is highly uncertain. No consistent policy regarding the breadth of claims allowed in biotechnology and pharmaceutical patents has emerged to date in the United States or in many foreign jurisdictions. The standards applied by the United States Patent and Trademark Office, or USPTO, and foreign patent offices in granting patents are not always applied uniformly or predictably. In addition, the determination of patent rights with respect to pharmaceutical compounds commonly involves complex legal and factual questions, which has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Thus, we cannot offer any assurances about which, if any, patents will issue, the breadth of any such patents, whether any issued patents will be found invalid and unenforceable or will be threatened by third parties or whether any issued patents will effectively prevent others from commercializing competing technologies and drug candidates.

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Our pending patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications. Assuming the other requirements for patentability are met, currently, the first to file a patent application is generally entitled to the patent. However, prior to March 16, 2013, in the United States, the first to invent was entitled to the patent. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Since patent applications in the United States and most other countries are confidential for a period of time after filing, and some remain so until issued, we cannot be certain that we were the first to file or invent (prior to March 16, 2013) any patent application related to our drug candidates. In addition, we enter into non-disclosure and confidentiality agreements with parties who have access to confidential or patentable aspects of our research and development output, such as our employees, collaborators, consultants, advisors and other third parties; however, any of these parties may breach the agreements and disclose such output before a patent application is filed, thereby jeopardizing our ability to seek patent protection. Furthermore, if third parties have filed patent applications related to our drug candidates or technology, an interference proceeding in the United States can be initiated by the USPTO or a third party to determine who was the first to invent any of the subject matter covered by the patent claims of our applications. Therefore, we cannot be certain that we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions.

Moreover, because the issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, our patents or pending patent applications may be challenged in the courts or patent offices in the United States and abroad. For example, we may be subject to a third-party preissuance submission of prior art to the USPTO or become involved in post-grant review procedures, oppositions, derivations, revocation, reexaminations, inter partes review or interference proceedings, in the United States or elsewhere, challenging our patent rights or the patent rights of others. An adverse determination in any such challenge may result in loss of exclusivity or in our patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical technology and products or limit the duration of the patent protection of our technology and products. Such challenges also may result in substantial cost and require significant time from our scientists and management, even if the eventual outcome is favorable to us. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and prospects.

In addition, given the amount of time required for the development, testing and regulatory review of new drug candidates, our patents protecting such drug candidates might expire before or shortly after such drug candidates are commercialized. As a result, our intellectual property may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours. Moreover, some of our patents may in the future be co-owned with third parties. If we are unable to obtain an exclusive license to any such third-party co-owners' interest in such patents or patent applications, such co-owners may be able to license their rights to other third parties, including our competitors, and our competitors could market competing products and technology. In addition, we may need the cooperation of any such co-owners of our patents in order to enforce such patents against third parties, and such cooperation may not be provided to us. Any of the foregoing could have a material adverse effect on our competitive position, business, financial conditions, results of operations, and prospects.

Our pending and future patent applications may not result in patents being issued that protect our drug candidates, in whole or in part, or which effectively prevent others from commercializing competitive products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection. In addition, the laws of foreign countries may not protect our rights to the same extent or in the same manner as the laws of the United States. For example, European patent law restricts the patentability of methods of treatment of the human body more than United States law does.

Even if our patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Moreover, the coverage claimed in a patent application can be significantly reduced before the patent is issued and its scope can be reinterpreted after issuance. Our competitors and other third parties may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner. Our competitors and other third parties may also seek approval to market their own products similar to or otherwise competitive with our products. Alternatively, our competitors or other third parties may seek to market generic or biosimilar versions of any approved products and in so doing, claim that patents owned or licensed by us are invalid, unenforceable or not infringed. In these circumstances, we may need to defend or assert our patents, or both, including by filing lawsuits alleging patent infringement. In any of these types of proceedings, a court or other agency with jurisdiction may find our patents invalid or unenforceable, or that our competitors are competing in a non-infringing manner. Thus, even if we have valid and enforceable patents, these patents still may not provide protection against competing products or processes sufficient to achieve our business objectives.

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Furthermore, our patents may be subject to a reservation of rights by one or more third parties. For example, if any of our technologies are developed in the future with government funding, the government may obtain certain rights in any resulting patents, including a non-exclusive license authorizing the government to use the invention or to have others use the invention on its behalf. If the U.S. government then decides to exercise these rights, it is not required to engage us as its contractor in connection with doing so. These rights may also permit the government to disclose our confidential information to third parties and to exercise march-in rights to use or allow third parties to use our licensed technology. The government may also exercise its march-in rights if it determines that action is necessary because we failed to achieve practical application of the government-funded technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations, or to give preference to U.S. industry. In addition, our rights in such government-funded inventions may be subject to certain requirements to manufacture products embodying such inventions in the United States. Any exercise by the government of aforementioned proprietary rights could harm our competitive position, business, financial condition, results of operations, and prospects.

### ***Changes to the patent law in the United States and other jurisdictions could diminish the value of patents in general, thereby impairing our ability to protect our products.***

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 involves both technological and legal complexity and is therefore costly, time consuming and inherently uncertain. Changes in either the patent laws or interpretation of the patent laws in the United States could increase the uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of issued patents. Recent patent reform legislation in the United States and other countries, including the Leahy-Smith America Invents Act, or the Leahy-Smith Act, signed into law in September 2011, could increase those uncertainties and costs. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted, redefine prior art and provide more efficient and cost-effective avenues for competitors to challenge the validity of patents. For example, the Leahy-Smith Act allows third-party submission of prior art to the USPTO during patent prosecution and additional procedures to attack the validity of a patent by USPTO administered post-grant proceedings, including post-grant review, *inter partes* review, and derivation proceedings. In addition, the Leahy-Smith Act has transformed the U.S. patent system from a “first-to-invent” system to a “first-to-file” system in which, assuming that other requirements for patentability are met, the first inventor to file a patent application will be entitled to the patent on an invention regardless of whether a third party was the first to invent the claimed invention. The first-to-file provisions, however, only became effective on March 16, 2013. Accordingly, it is not yet clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could make it more difficult to obtain patent protection for our inventions and increase the uncertainties and costs surrounding the prosecution of our or our collaboration partners’ patent applications and the enforcement or defense of our or our collaboration partners’ issued patents, all of which could harm our business, results of operations, financial condition and prospects.

The U.S. Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. Additionally, there have been recent proposals for additional changes to the patent laws of the United States and other countries that, if adopted, could impact our ability to enforce our proprietary technology. Depending on future actions by the U.S. Congress, the U.S. courts, the USPTO and the relevant law-making bodies in other countries, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future.

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

Competitors may infringe our patents, trademarks, copyrights, trade secrets or other intellectual property. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming and divert the time and attention of our management and scientific personnel. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents or their intellectual property, in addition to counterclaims asserting that our patents are invalid or unenforceable, or both. In any patent infringement proceeding, there is a risk that a court will decide that a patent of ours is invalid or unenforceable, in whole or in part, and that we do not have the right to stop the other party from using the invention at issue. There is also a risk that, even if the validity of such patents is upheld, the court will construe the patent’s claims narrowly or decide that we do not have the right to stop the other party from using the invention at issue on the grounds that our patent claims do not cover the invention. An adverse outcome in a litigation or proceeding involving our patents could limit our ability to assert our patents against those parties or other competitors, and may curtail or preclude our ability to

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exclude third parties from making and selling similar or competitive products. Any of these occurrences could adversely affect our competitive business position, business prospects and financial condition. Similarly, if we assert trademark infringement claims, a court may determine that the marks we have asserted are invalid or unenforceable, or that the party against whom we have asserted trademark infringement has superior rights to the marks in question. In this case, we could ultimately be forced to cease use of such trademarks.

Even if we establish infringement, the court may decide not to grant an injunction against further infringing activity and instead award only monetary damages, which may or may not be an adequate remedy. 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 litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of shares of our common stock. Moreover, there can be no assurance that we will have sufficient financial or other resources to file and pursue such infringement claims, which typically last for years before they are concluded. Even if we ultimately prevail in such claims, the monetary cost of such litigation and the diversion of the attention of our management and scientific personnel could outweigh any benefit we receive as a result of the proceedings.

Furthermore, third parties may also raise invalidity or unenforceability claims before administrative bodies in the United States or comparable foreign authorities, even outside the context of litigation. Such mechanisms include re-examination, inter partes review, post-grant review, interference proceedings, derivation proceedings and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings). Such proceedings could result in revocation, cancellation or amendment to our patents in such a way that they no longer cover and protect our drug candidates. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to the validity of our patents, for example, we cannot be certain that there is no invalidating prior art of which we, our licensors, our patent counsel and the patent examiner were unaware during prosecution. If a third party were to prevail on a legal assertion of invalidity or unenforceability, we would lose at least part, and perhaps all, of the patent protection on one or more of our drug candidates. Any such loss of patent protection could have a material adverse impact on our business, financial condition, results of operations and prospects.

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

Filing, prosecuting and defending patents with respect to our drug candidates in all countries throughout the world would be prohibitively expensive, and the laws of foreign countries may not protect our rights to the same extent as the laws of the United States. The requirements for patentability may differ in certain countries, particularly in developing countries. In addition, our intellectual property license agreements may not always include worldwide rights. Consequently, competitors and other third parties may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we may obtain patent protection, but where patent enforcement is not as strong as that in the United States. These products may compete with our products in jurisdictions where we do not have any issued or licensed patents or where any future patent claims or other intellectual property rights may not be effective or sufficient to prevent them from competing with us.

Moreover, our ability to protect and enforce our intellectual property rights may be adversely affected by unforeseen changes in foreign intellectual property laws. Additionally, laws of some countries outside of the United States and Europe do not afford intellectual property protection to the same extent as the laws of the United States and Europe. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, including India, China and other developing countries, do not favor the enforcement of patents and other intellectual property rights, particularly those relating to biotechnology products, which could make it difficult for us to stop the infringement, misappropriation or other violation of our patents or other intellectual property rights. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. Consequently, we may not be able to prevent third parties from practicing our inventions in certain countries outside the United States and Europe. In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of such patent. If we are 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, financial condition, results of operations, and prospects may be adversely affected. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we have patent protection, if our ability to enforce our patents to stop infringing activities is inadequate. These products may compete with our products, and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing, which could have a material adverse effect on our business, financial condition, results of operations and prospects.



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Proceedings to enforce our patent rights in foreign jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and resources from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly, could put our patent applications at risk of not issuing, and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be commercially meaningful. Furthermore, while we intend to protect our intellectual property rights in major markets for our products, we cannot ensure that we will be able to initiate or maintain similar efforts in all jurisdictions in which we may wish to market our products. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate.

***If we are sued for infringing, misappropriating or otherwise violating intellectual property rights of third parties, such litigation or disputes could be costly and time consuming and could prevent or delay us from developing or commercializing our drug candidates.***

Our commercial success depends, in part, on our ability to develop, manufacture, market and sell our drug candidates without infringing, misappropriating or otherwise violating the intellectual property and other proprietary rights of third parties. If any third party patents or patent applications are found to cover our drug candidates or their methods of use or manufacturing, we may be required to pay damages, which could be substantial, and we would not be free to manufacture or market our drug candidates without obtaining a license, which may not be available on commercially reasonable terms, or at all.

There is a substantial amount of intellectual property litigation in the biotechnology and pharmaceutical industries, and we may become party to, or threatened with, litigation or other adversarial proceedings regarding intellectual property rights with respect to our drug candidates, including interference proceedings before the USPTO. Third parties may assert infringement, misappropriation or other claims against us based on existing or future intellectual property rights. The outcome of intellectual property litigation and other disputes is subject to uncertainties that cannot be adequately quantified in advance. The pharmaceutical and biotechnology industries have produced a significant number of patents, and it may not always be clear to industry participants, including us, which patents cover various types of products or methods of using or manufacturing products. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we were sued for patent infringement, we would need to demonstrate that our drug candidates, products or methods of use, manufacturing or other applicable activities either do not infringe the patent claims of the relevant patent or that the patent claims are invalid or unenforceable, and we may not be successful in doing so. Proving invalidity is difficult. For example, in the United States, proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. Even if we believe third-party intellectual property claims are without merit, there is no assurance that a court would find in our favor on questions of infringement, validity, or enforceability. Even if we are successful in these proceedings, we may incur substantial costs and the time and attention of our management and scientific personnel could be diverted in pursuing these proceedings, which could significantly harm our business and operating results. In addition, we may not have sufficient resources to bring these actions to a successful conclusion.

If we are found to infringe, misappropriate or otherwise violate a third party's intellectual property rights and we are unsuccessful in demonstrating that such intellectual property rights are invalid or unenforceable, we could be forced, including by court order, to cease developing, manufacturing or commercializing the infringing drug candidate or product. Alternatively, we may be required to obtain a license from such third party in order to use the infringing technology and continue developing, manufacturing or marketing the infringing drug candidate. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our drug candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business, financial condition, results of operations and prospects.

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

Some of our employees and consultants are currently or have been previously employed at universities or at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. These employees and consultants may have executed proprietary rights, non-disclosure and non-competition agreements, or similar agreements, in connection with such other current or previous employment. Although we try to ensure that our employees and consultants 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 individuals have used or disclosed intellectual property, including trade secrets or other proprietary information, of third parties. Litigation may be necessary to defend against such claims. If we fail in 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

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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 are successful in defending against such claims, litigation could result in substantial costs and be a distraction to our management. Any of the foregoing would have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, while we typically require our employees, consultants and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. In addition such agreements may not be self-executing such that the intellectual property subject to such agreements may not be assigned to us without additional assignments being executed, and we may fail to obtain such assignments. In addition, such agreements may be breached. Accordingly, we may be forced to bring claims against third parties, or defend claims that they may bring against us related to the ownership of such intellectual property. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to our senior management and scientific personnel, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

### ***The term of our patents may be inadequate to protect our competitive position on our products.***

Given the amount of time required for the development, testing and regulatory review of new drug candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. Depending upon the timing, duration and other factors relating to any FDA marketing approval we receive for any of our drug 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, or Hatch-Waxman Amendments. We expect to seek extensions of patent terms in the United States and, if available, in other countries where we are prosecuting patents. In the United States, the Hatch-Waxman Amendments permit a patent term extension of up to five years beyond the normal expiration of the patent as compensation for patent term lost during the regulatory review process. A patent term extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval, only one patent may be extended and only those claims covering the approved drug, a method for using it, or a method for manufacturing it may be extended, and the application for the extension must be submitted prior to the expiration of the patent. However, the applicable authorities, including the FDA and the USPTO in the United States, and any equivalent regulatory authority in other countries, may not agree with our assessment of whether such extensions are available for our patents, may refuse to grant extensions to our patents, or may grant more limited extensions than we request. We may not be granted an extension because of, for example, failing to exercise due diligence during the testing phase or regulatory review process, failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents, or otherwise failing to satisfy applicable requirements. If we are unable to obtain patent term extension or the term of any such extension is less than we request, our competitors and other third parties may be able to obtain approval of competing products following our patent expiration and take advantage of our investment in development and clinical trials by referencing our clinical and preclinical data and launch their product earlier than might otherwise be the case. Any of the foregoing would have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and patent offices in foreign countries in several stages over the lifetime of the patent. The USPTO and patent offices in foreign countries require compliance with a number of procedural, documentary, fee payment and other requirements during the patent application process. In certain circumstances, we rely on our licensing partners to pay these fees due to U.S. and non-U.S. patent agencies and to comply with these other requirements with respect to our licensed patents and patent applications. While an inadvertent lapse can 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 a patent or patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, our competitors and other third parties might be able to enter the market with similar or identical products of technology, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

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***If we are unable to protect the confidentiality of our trade secrets, the value of our technology could be materially adversely affected and our business would be harmed.***

While we have obtained composition of matter patents with respect to certain of our drug candidates, we also rely on proprietary know-how and trade secret protection and confidentiality agreements to protect proprietary know-how or trade secrets that are not patentable or that we elect not to patent. For example, we have elected to not patent our proprietary kinase switch control inhibitor platform and therefore rely on protecting the proprietary aspects of our platform as a trade secret. We seek to protect our trade secrets and proprietary know-how in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, consultants, independent contractors, advisors, contract manufacturers, suppliers, collaborators and other third parties. We also enter into confidentiality and invention or patent assignment agreements with employees and certain consultants. However, we cannot guarantee that we have entered into such agreements with each party that may have or have had access to our trade secrets or proprietary know-how. Additionally, our confidentiality agreements and other contractual protections may not be adequate to protect our intellectual property from unauthorized disclosure, third-party infringement or misappropriation. Any party with whom we have executed such an agreement may breach that agreement and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, if any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent such third party, or those to whom they communicate such technology or information, from using that technology or information to compete with us. If any of our trade secrets, including with respect to our proprietary kinase switch control inhibitor platform, were to be disclosed to or independently developed by a competitor or other third party, our business, financial condition, results of operations and prospects our business and competitive position could be materially harmed.

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

We rely, in part, on license, collaboration and other agreements. We may need to obtain additional licenses from others to advance our research or allow commercialization of our drug candidates and it is possible that we may be unable to obtain additional licenses at a reasonable cost or on reasonable terms, if at all. The licensing or acquisition of third party intellectual property rights is a competitive area, and several more established companies may pursue 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, capital 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 use. 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.

In addition, our present and future licenses, collaborations and other intellectual property related agreements, are likely to impose various development, commercialization, funding, milestone, royalty, diligence, sublicensing, insurance, patent prosecution and enforcement or other obligations on us. If we breach any of these obligations, or use the intellectual property licensed to us in an unauthorized manner, we may be required to pay damages and our licensors may have the right to terminate the license. If our license or other intellectual property related agreements are terminated, we may be required to cease developing and commercializing drug candidates that are covered by the licensed intellectual property. Disputes may arise regarding intellectual property subject to a licensing, collaboration or other agreement, including:

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

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

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In some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering the technology that we license from third parties. Therefore, we cannot be certain that these patents and applications will be prosecuted, maintained and enforced in a manner consistent with the best interests of our business. If our licensors fail to obtain or maintain such intellectual property, or lose rights to such intellectual property, the rights we have licensed and our exclusivity may be reduced or eliminated and our right to develop and commercialize any of our products that are subject to such licensed rights could be adversely affected.

Moreover, our rights to our in-licensed patents and patent applications may depend, in part, on inter-institutional or other operating agreements between the joint owners of such in-licensed patents and patent applications. If one or more of such joint owners breaches such inter-institutional or operating agreements, our rights to such in-licensed patents and patent applications may be adversely affected. In addition, while we cannot currently determine the amount of the royalty obligations we would be required to pay on sales of future products, if any, the amounts may be significant. The amount of our future royalty obligations will depend on the technology and intellectual property we use in products that we successfully develop and commercialize, if any. Therefore, even if we successfully develop and commercialize products, we may be unable to achieve or maintain profitability. Any of the foregoing could have a material adverse effect on our competitive position, business, financial conditions, results of operations and prospects.

If we are unable to successfully obtain rights to required third party intellectual property rights or maintain the existing intellectual property rights we have, we may have to abandon development of the relevant program or drug candidate and our business, financial condition, results of operations and prospects could suffer.

### ***Intellectual property rights do not necessarily address all potential threats.***

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. For example:

- others may be able to make products similar to any drug candidates we may develop or utilize similarly related technologies that are not covered by the claims of the patents that we license or may own in the future;
- we, or our license partners or current or future collaborators, might not have been the first to make the inventions covered by the issued patent or pending patent application that we license or may own in the future;
- we, or our license partners or current or future collaborators, might not have been the first to file patent applications covering certain of our or their inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing, misappropriating or otherwise violating any of our owned or licensed intellectual property rights;
- it is possible that our pending licensed patent applications or those that we may own in the future will not lead to issued patents;
- issued patents that we hold rights to may be held invalid or unenforceable, including as a result of legal challenges by our competitors or other third parties;
- our competitors or other third parties 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;
- we may not develop additional proprietary technologies that are patentable;
- the patents of others may harm our business; and
- we may choose not to file a patent in order to maintain certain trade secrets or know how, and a third party may subsequently file a patent covering such intellectual property.

Should any of these events occur, they could have a material adverse effect on our business, financial condition, results of operations and prospects.

## **Risks Related to Regulatory Approval and Marketing of Our Drug Candidates and Other Legal Compliance Matters**

*We have not received approval to market any of our drug candidates from regulatory authorities in any jurisdiction. Even if we complete the necessary clinical trials, the marketing approval process is expensive, time-consuming and uncertain and may prevent us from obtaining approvals for the commercialization of some or all of our drug candidates. If we are not able to obtain, or if there are delays in obtaining, required regulatory approvals, we will not be able to commercialize our drug candidates, and our ability to generate revenue will be materially impaired.*

Our drug candidates and the activities associated with their development and commercialization, including their design, testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by the EMA and similar regulatory authorities outside the United States. Failure to obtain marketing approval for a drug candidate will prevent us from commercializing the drug candidate. Our drug candidates are in the early stages of development and are subject to the risks of failure inherent in drug development. We have not received approval to market any of our drug candidates from regulatory authorities in any jurisdiction. We have only limited experience in conducting and managing the clinical trials, and in submitting and supporting the applications necessary to seek marketing approvals and expect to rely on third-party CROs to assist us in this process. Securing marketing approval requires the submission of extensive nonclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the drug candidate's safety and efficacy. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. Our drug candidates may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining marketing approval or prevent or limit commercial use.

The process of obtaining marketing approvals, both in the United States and abroad, is expensive, may take many years if additional clinical trials are required, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the drug candidates involved. For example, we plan to initiate two pivotal Phase 3 trials for DCC-2618, one in fourth-line GIST and another in second-line GIST; however, the FDA may require us to conduct a clinical trial in third-line GIST before we may conduct one in second-line GIST. In addition, while we plan to conduct only one pivotal Phase 3 trial for each indication of fourth-line GIST and second-line GIST, for a single randomized trial to support an NDA, the trial must be well-designed, well-conducted, with a favorable risk/benefit ratio, and provide statistically persuasive efficacy findings so compelling that a second trial would be unethical or practically impossible to repeat. Further, changes in marketing approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application, may cause delays in the approval or rejection of an application. Regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data are insufficient for approval and require additional nonclinical, clinical or other studies. In addition, varying interpretations of the data obtained from nonclinical and clinical testing could delay, limit or prevent marketing approval of a drug candidate. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable. If we experience delays in obtaining approval or if we fail to obtain approval of our drug candidates, the commercial prospects for our drug candidates may be harmed and our ability to generate revenues will be materially impaired.

*We may not be able to obtain orphan drug exclusivity for our drug candidates.*

Regulatory authorities in some jurisdictions, including the United States and Europe, may in response to a request from the sponsor designate drugs for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a product as an orphan drug if it is a drug intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States. For example, we have received orphan drug designation for DCC-2618 for the treatment of GIST and GBM in the United States.

Generally, if a product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the product is entitled to a period of marketing exclusivity, which precludes the approval of another marketing application for the same drug for the same indication for that time period. The applicable period is seven years in the United States and ten years in Europe. Orphan drug exclusivity may be lost if the FDA or EMA determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition. In addition, the FDA can subsequently approve the same drug for treatment of the same disease or condition if it concludes that the later drug is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care. The FDA also can approve a different drug for the same orphan indication, or the same drug for a different indication, during the orphan exclusivity period.

Even if we obtain orphan drug exclusivity for a product's use in a specific indication, that exclusivity may not effectively protect the product from competition.

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### ***A fast track designation by the FDA may not actually lead to a faster development or regulatory review or approval process.***

We intend to seek fast track designation for some of our drug candidates. If a drug is intended for the treatment of a serious or life-threatening condition and the drug demonstrates the potential to address unmet medical needs for this condition, the drug sponsor may apply for FDA fast track designation. The FDA has broad discretion whether or not to grant this designation, so even if we believe a particular drug candidate is eligible for this designation, we cannot assure you that the FDA would decide to grant it. Even if we do receive fast track designation, we may not experience a faster development process, review or approval compared to conventional FDA procedures. The FDA may rescind fast track designation if the drug candidate no longer meets the qualifying criteria for fast track designation, such as if the drug: (1) no longer demonstrates a potential to address unmet medical need or (2) is not being studied in a manner that shows the drug can treat a serious condition and meets an unmet medical need. A drug candidate may no longer demonstrate a potential to address unmet medical need if a new product was approved under a traditional approval that addressed the same need or if emerging clinical data failed to show that the fast track designated drug candidate had the anticipated advantage over available therapy.

### ***A breakthrough therapy designation by the FDA for our drug candidates may not lead to a faster development or regulatory review or approval process, and it does not increase the likelihood that our drug candidates will obtain marketing approval.***

We may seek a breakthrough therapy designation for some of our drug candidates. A breakthrough therapy is defined as a drug that is intended, alone or in combination with one or more other drugs, to treat a serious or life-threatening disease or condition, and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. For drugs and biologics that have been designated as breakthrough therapies, interaction and communication between the FDA and the sponsor of the trial can help to identify the most efficient path for clinical development while minimizing the number of patients placed in ineffective control regimens. Drugs designated as breakthrough therapies by the FDA are also eligible for accelerated approval.

Designation as a breakthrough therapy is within the discretion of the FDA. Accordingly, even if we believe one of our drug candidates meets the criteria for designation as a breakthrough therapy, the FDA may disagree and instead determine not to make such designation. In any event, the receipt of a breakthrough therapy designation for a drug candidate may not result in a faster development process, review or approval compared to drugs considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA. In addition, even if one or more of our drug candidates qualify as breakthrough therapies, the FDA may later decide that the products no longer meet the conditions for qualification or decide that the time period for FDA review or approval will not be shortened.

### ***Our failure to obtain marketing approval in foreign jurisdictions would prevent our drug candidates from being marketed abroad, and any approval we are granted for our drug candidates in the United States would not assure approval of drug candidates in foreign jurisdictions.***

In order to market and sell our products in the European Union and many other jurisdictions, we must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, it is required that the product be approved for reimbursement before the product can be approved for sale in that country. We may not obtain approvals from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our products in any market.

### ***Even if we obtain marketing approval for our drug candidates, the terms of approvals and ongoing regulation of our products may limit how we manufacture and market our products and compliance with such requirements may involve substantial resources, which could materially impair our ability to generate revenue.***

Even if marketing approval of a drug candidate is granted, an approved product and its manufacturer and marketer are subject to ongoing review and extensive regulation, which may include the requirement to implement a risk evaluation and mitigation strategy or to conduct costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of the product. We must also comply with requirements concerning advertising and promotion for any of our drug candidates for which we obtain marketing approval. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved labeling. Thus, we will not be able to promote any products we develop for indications or uses for which they are not approved. In addition, manufacturers of approved products and those

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manufacturers' facilities are required to ensure that quality control and manufacturing procedures conform to cGMPs, which include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation and reporting requirements. We and our contract manufacturers could be subject to periodic unannounced inspections by the FDA to monitor and ensure compliance with cGMPs.

Accordingly, assuming we obtain marketing approval for one or more of our drug candidates, we and our contract manufacturers will continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production, product surveillance and quality control. If we are not able to comply with post-approval regulatory requirements, we could have the marketing approvals for our products withdrawn by regulatory authorities and our ability to market any future products could be limited, which could adversely affect our ability to achieve or sustain profitability. As a result, the cost of compliance with post-approval regulations may have a negative effect on our operating results and financial condition.

***Any drug candidate for which we obtain marketing approval will be subject to ongoing enforcement of post-marketing requirements and we could be subject to substantial penalties, including withdrawal of our product from the market, if we fail to comply with all regulatory requirements or if we experience unanticipated problems with our products, when and if any of them are approved.***

Any drug candidate for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to continual requirements of and review by the FDA and other regulatory authorities. These requirements include, but are not limited to, restrictions governing promotion of an approved product, submissions of safety and other post-marketing information and reports, registration and listing requirements, cGMP requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, and requirements regarding drug distribution and the distribution of samples to physicians and recordkeeping.

The FDA and other federal and state agencies, including the Department of Justice, closely regulate compliance with all requirements governing prescription drug products, including requirements pertaining to marketing and promotion of drugs in accordance with the provisions of the approved labeling and manufacturing of products in accordance with cGMP requirements. Violations of such requirements may lead to investigations alleging violations of the Food, Drug, and Cosmetic Act, or the FDCA, and other statutes, including the False Claims Act and other federal and state healthcare fraud and abuse laws as well as state consumer protection laws. Our failure to comply with all regulatory requirements, and later discovery of previously unknown adverse events or other problems with our products, manufacturers or manufacturing processes, may yield various results, including:

- litigation involving patients taking our products;
- restrictions on such products, manufacturers or manufacturing processes;
- restrictions on the labeling or marketing of a product;
- restrictions on product distribution or use;
- requirements to conduct post-marketing studies or clinical trials;
- warning or untitled letters;
- withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- recall of products;
- fines, restitution or disgorgement of profits or revenues;
- suspension or withdrawal of marketing approvals;
- damage to relationships with any potential collaborators;
- unfavorable press coverage and damage to our reputation;
- refusal to permit the import or export of our products;
- product seizure; or
- injunctions or the imposition of civil or criminal penalties.

Non-compliance by us or any future collaborator with regulatory requirements, including safety monitoring or pharmacovigilance, and with requirements related to the development of products for the pediatric population can also result in significant financial penalties. Similarly, failure to comply with applicable regulatory requirements regarding the protection of personal information can also lead to significant penalties and sanctions.

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***Our relationships with customers and third-party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.***

Healthcare providers, physicians and third-party payors will play a primary role in the recommendation and prescription of any drug candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute any products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations, include the following:

- the federal Anti-Kickback Statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under a federal healthcare program such as Medicare and Medicaid;
- the federal False Claims laws impose criminal and civil penalties, including civil whistleblower or *qui tam* actions, against individuals or entities for, among other things, knowingly presenting, or causing to be presented false or fraudulent claims for payment by a federal government program, or making a false statement or record material to payment of a false claim or avoiding, decreasing or concealing an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program and also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal false statements statute prohibits 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;
- the federal transparency requirements under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the ACA, requires manufacturers of drugs, devices, biologics and medical supplies to report to the Department of Health and Human Services information related to physician payments and other transfers of value and physician ownership and investment interests; and
- analogous state laws and regulations such as state anti-kickback and false claims laws and analogous non-U.S. fraud and abuse laws and regulations, may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers.

Some state laws require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance regulations promulgated by the federal government and may require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures. State and non-U.S. laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations 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 these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, imprisonment, exclusion of products from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found to be not in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs, which could have a material adverse effect on our business, results of operations, financial condition and prospects.



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### ***Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our drug candidates and decrease the prices we may obtain.***

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of our drug candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any drug candidates for which we obtain marketing approval.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or the MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. Cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the MMA may result in a similar reduction in payments from private payors.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the ACA, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for the healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms.

Among the provisions of the ACA of importance to our potential drug candidates are the following:

- an annual, nondeductible fee on any entity that manufactures or imports specified branded prescription drugs and biologic products;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- expansion of healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, new government investigative powers, and enhanced penalties for noncompliance;
- extension of manufacturers' Medicaid rebate liability;
- expansion of eligibility criteria for Medicaid programs;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- requirements to report financial arrangements with physicians and teaching hospitals;
- a requirement to annually report drug samples that manufacturers and distributors provide to physicians; and
- a Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

Some of the provisions of the ACA have yet to be fully implemented, while certain provisions have been subject to judicial and Congressional challenges. In January 2017, Congress voted to adopt a budget resolution for fiscal year 2017, that while not a law, is widely viewed as the first step toward the passage of legislation that would repeal certain aspects of the ACA. In May 2017, the House of Representatives passed legislation to repeal and replace parts of the ACA. Further, on January 20, 2017, President Trump signed an Executive Order directing federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal burden on states or a cost, fee, tax, penalty or regulatory burden on individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. The full impact of the ACA, any law repealing and/or replacing elements of it, and the political uncertainty surrounding any repeal or replacement legislation on our business remains unclear.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes included aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, starting in 2013. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several providers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These laws may result in additional reductions in Medicare and other healthcare funding.

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

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our drug candidates, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent product labeling and post-marketing testing and other requirements.

### ***Governments outside of the United States tend to impose strict price controls, which may adversely affect our revenues, if any.***

In some countries, particularly the countries of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our drug candidate to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be harmed. In addition, the recent United Kingdom referendum on its membership in the European Union resulted in a majority of United Kingdom voters voting to exit the European Union, often referred to as Brexit. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations, including those related to the pricing of prescription pharmaceuticals, as the United Kingdom determines which EU laws to replicate or replace. If the United Kingdom were to significantly alter its regulations affecting the pricing of prescription pharmaceuticals, we could face significant new costs. As a result, Brexit could impair our ability to transact business in the European Union and the United Kingdom.

### ***Laws and regulations governing any international operations we may have in the future may preclude us from developing, manufacturing and selling certain drug candidates and products outside of the United States and require us to develop and implement costly compliance programs.***

If we expand our operations outside of the United States, we must dedicate additional resources to comply with numerous laws and regulations in each jurisdiction in which we plan to operate. The Foreign Corrupt Practices Act, or FCPA, prohibits any U.S. individual or business from paying, offering, authorizing payment or offering anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of such third party in order to assist the individual or business in obtaining or retaining business. The FCPA also obligates companies whose securities are listed in the United States to comply with certain accounting provisions requiring the company to maintain books and records that accurately and fairly reflect all transactions of the company, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations.

Compliance with the FCPA is expensive and difficult, particularly in countries in which corruption is a recognized problem. In addition, the FCPA presents particular challenges in the pharmaceutical industry, because, in many countries, hospitals are operated by the government, and doctors and other hospital employees are considered foreign officials. Certain payments to hospitals in connection with clinical trials and other work have been deemed to be improper payments to government officials and have led to FCPA enforcement actions.

Various laws, regulations and executive orders also restrict the use and dissemination outside of the United States, or the sharing with certain non-U.S. nationals, of information classified for national security purposes, as well as certain products and technical data relating to those products. If we expand our presence outside of the United States, it will require us to dedicate additional resources to comply with these laws, and these laws may preclude us from developing, manufacturing or selling certain drug candidates and products outside of the United States, which could limit our growth potential and increase our development costs.

The failure to comply with laws governing international business practices may result in substantial civil and criminal penalties and suspension or debarment from government contracting. The Securities and Exchange Commission also may suspend or bar issuers from trading securities on U.S. exchanges for violations of the FCPA's accounting provisions.

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***If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.***

We are subject to numerous foreign, federal, state and local environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources, including any available insurance.

In addition, our leasing and operation of real property may subject us to liability pursuant to certain of these laws or regulations. Under existing U.S. environmental laws and regulations, current or previous owners or operators of real property and entities that disposed or arranged for the disposal of hazardous substances may be held strictly, jointly and severally liable for the cost of investigating or remediating contamination caused by hazardous substance releases, even if they did not know of and were not responsible for the releases.

We could incur significant costs and liabilities which may adversely affect our financial condition and operating results for failure to comply with such laws and regulations, including, among other things, civil or criminal fines and penalties, property damage and personal injury claims, costs associated with upgrades to our facilities or changes to our operating procedures, or injunctions limiting or altering our operations.

Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations, which are becoming increasingly more stringent, may impair our research, development or production efforts. Our failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

### **Risks Related to Employee Matters and Managing Growth**

***Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.***

We are highly dependent on the research, development and management expertise of Michael D. Taylor, Ph.D., our President and Chief Executive Officer, and the research expertise on kinase switch control inhibition of Daniel L. Flynn, Ph.D., our founder and Chief Scientific Officer, as well as the other principal members of our management, scientific and clinical team. Although we have entered into employment agreements with our executive officers, each of them may terminate their employment with us at any time. We maintain "key person" insurance for Dr. Flynn, but not for any of our other executives or employees.

Recruiting and retaining qualified scientific, clinical, manufacturing and sales and marketing personnel will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain marketing approval of and commercialize products. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

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

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug development, manufacturing, regulatory affairs and, if any of our drug candidates receives marketing approval, sales, marketing and distribution. To manage our anticipated future 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 anticipated growth and with developing sales, marketing and distribution infrastructure, 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 or prevent the execution of our business plans or disrupt our operations.

***We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology, including any cyber security incidents, could harm our ability to operate our business effectively.***

Despite the implementation of security measures, our internal computer systems and those of third parties with which we contract are vulnerable to damage from cyber-attacks, computer viruses, worms and other destructive or disruptive software, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. System failures, accidents or security breaches could cause interruptions in our operations, and could result in a material disruption of our clinical and commercialization activities and business operations, in addition to possibly requiring substantial expenditures of resources to remedy. The loss of clinical trial data could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and our product research, development and commercialization efforts could be delayed. In addition, we may not have adequate insurance coverage to provide compensation for any losses associated with such events.

We could be subject to risks caused by misappropriation, misuse, leakage, falsification or intentional or accidental release or loss of information maintained in the information systems and networks of our company, including personal information of our employees. In addition, outside parties may attempt to penetrate our systems or those of our vendors or fraudulently induce our employees or employees of our vendors to disclose sensitive information in order to gain access to our data. Like other companies, we have on occasion, and will continue to experience, threats to our data and systems, including malicious codes and viruses, and other cyber-attacks. The number and complexity of these threats continue to increase over time. If a material breach of our security or that of our vendors occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose business and our reputation and credibility could be damaged. We could be required to expend significant amounts of money and other resources to repair or replace information systems or networks. Although we develop and maintain systems and controls designed to prevent these events from occurring, and we have a process to identify and mitigate threats, the development and maintenance of these systems, controls and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of these events occurring cannot be eliminated entirely.

***We or the third parties upon whom we depend may be adversely affected by natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.***

Natural disasters could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects. If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, such as the manufacturing facilities of our third party contract manufacturers, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. The disaster recovery and business continuity plans we have in place may prove inadequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of the limited nature of our disaster recovery and business continuity plans, which, could have a material adverse effect on our business.

***We may engage in strategic transactions that could impact our liquidity, increase our expenses and present significant distractions to our management.***

From time to time, we may consider strategic transactions, such as acquisitions of companies, businesses or assets and out-licensing or in-licensing of products, drug candidates or technologies. Additional potential transactions that we may consider include a variety of different business arrangements, including spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments. Any such transaction may require us to incur non-recurring or other charges, may increase our

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near term or long term expenditures and may pose significant integration challenges or disrupt our management or business, which could adversely affect our operations and financial results. For example, these transactions may entail numerous operational and financial risks, including:

- exposure to unknown liabilities;
- disruption of our business and diversion of our management's time and attention in order to develop acquired products, drug candidates or technologies;
- incurrence of substantial debt or dilutive issuances of equity securities to pay for acquisitions;
- higher than expected acquisition and integration costs;
- write-downs of assets or goodwill or impairment charges;
- increased amortization expenses;
- difficulty and cost in combining the operations, systems and personnel of any acquired businesses with our operations, systems and personnel;
- impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and
- inability to retain key employees of any acquired businesses.

### **Risks Related to Our Common Stock**

***Our executive officers, directors and principal stockholders, if they choose to act together, will continue to have the ability to control or significantly influence all matters submitted to stockholders for approval.***

As of October 31, 2017, our executive officers and directors, combined with our stockholders who own more than 5% of our outstanding capital stock, beneficially own shares, in the aggregate, representing approximately 78% of our capital stock. As a result, if these stockholders were to choose to act together, they would be able to control all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, would control the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of ownership control may:

- delay, defer or prevent a change in control;
- entrench our management and the board of directors; or
- impede a merger, consolidation, takeover or other business combination involving us that other stockholders may desire.

***Provisions in our corporate charter documents, under Delaware law and in certain of our contractual agreements could make an acquisition of our company, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.***

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control of our company that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions:

- establish a classified board of directors such that only one of three classes of directors is elected each year;
- allow the authorized number of our directors to be changed only by resolution of our board of directors;
- limit the manner in which stockholders can remove directors from our board of directors;
- establish advance notice requirements for stockholder proposals that can be acted on at stockholder meetings and nominations to our board of directors;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit actions by our stockholders by written consent;

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- limit who may call stockholder meetings;
- authorize our board of directors to issue preferred stock without stockholder approval, which could be used to institute a “poison pill” that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors; and
- require the approval of the holders of at least 75% of the votes that all our stockholders would be entitled to cast to amend or repeal specified provisions of our charter or bylaws.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

We are also party to a loan agreement and a security agreement that includes covenants such as limitations on our ability to engage in certain fundamental business transactions, such as mergers or acquisitions of other businesses.

***Our amended and restated bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our amended and restated bylaws provide that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers and employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws, or (iv) any action asserting a claim that is governed by the internal affairs doctrine, in each case subject to the Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein. Any person purchasing or otherwise acquiring any interest in any shares of our capital stock shall be deemed to have notice of and to have consented to this provision of our amended and restated bylaws. This choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or employees, which may discourage such lawsuits against us and our directors, officers and employees even though an action, if successful, might benefit our stockholders. Stockholders who do bring a claim in the Court of Chancery could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near the State of Delaware. The Court of Chancery may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. Alternatively, if a court were to find this provision of our amended and restated bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs, which could have a material adverse effect on our business, financial condition or results of operations.

***An active trading market for our common stock may not be sustained.***

Our shares of common stock began trading on The NASDAQ Global Select Market on September 28, 2017. Given the limited trading history of our common stock, there is a risk that an active trading market for our shares will not be sustained, which could put downward pressure on the market price of our common stock and thereby affect the ability of our stockholders to sell their shares.

***The price of our common stock may be volatile and fluctuate substantially, which could result in substantial losses for purchasers of our common stock.***

Our stock price is likely to be volatile. The stock market in general and the market for smaller biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. Since our common stock began trading on The NASDAQ Global Select Market on September 28, 2017, our stock has traded at prices as low as \$16.11 per share and as high as \$24.50 per share through October 31, 2017. The market price for our common stock may be influenced by many factors, including:

- the degree of success of competitive products or technologies;
- results of clinical trials and preclinical studies, of our drug candidates or those of our competitors;
- regulatory or legal developments in the United States and other countries;
- receipt of, or failure to obtain, regulatory approvals;

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- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our drug candidates or clinical development programs;
- the results of our efforts to discover, develop, acquire or in-license additional technologies or drug candidates;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- rumors or announcements regarding transactions involving our company or drug candidates;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- general economic, industry and market conditions; and
- the other factors described in this “Risk Factors” section.

### ***We could be subject to securities class action litigation.***

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because pharmaceutical companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management’s attention and resources, which could harm our business.

### ***We are an “emerging growth company,” and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and may remain an emerging growth company for up to five years. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure;
- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding a supplement to the auditor’s report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We have taken advantage of some, but not all, of the available exemptions. We cannot predict whether investors will find our common stock less attractive if we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of these accounting standards until they would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

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

As a public company, and particularly after we are no longer an emerging growth company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The NASDAQ Global Select Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, which in turn could make it more difficult for us to attract and retain qualified members of our board of directors.

We are evaluating these rules and regulations, and cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. 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 the Sarbanes-Oxley Act of 2002, or Section 404, we are required to furnish a report by our management on our internal control over financial reporting. However, while we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we will be engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude, within the prescribed timeframe or at all, that our internal control over financial reporting is effective as required by Section 404. If we identify one or more material weaknesses, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

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

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. In addition, the terms of any future debt agreements we may enter into may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

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

### ***Recent Sales of Unregistered Equity Securities***

During the period between July 1, 2017 and September 30, 2017, we issued to certain of our employees and directors, options to purchase an aggregate of 529,687 shares of our common stock at a weighted-average exercise price of \$16.70 per share. We deemed these issuances to be exempt from registration under the Securities Act either in reliance on Rule 701 of the Securities Act as sales and offers under compensatory benefit plans and contracts relating to compensation in compliance with Rule 701, or in reliance on Section 4(a)(2), as transactions by an issuer not involving a public offering. All recipients either received adequate information about our company or had access, through employment or other relationships, to such information. No underwriters were involved in the foregoing issuances of securities.

On October 2, 2017, immediately prior to the closing of our initial public offering, we issued to direct and indirect equity holders of Deciphera Pharmaceuticals, LLC an aggregate of 24,425,190 shares of our common stock in exchange for, directly and indirectly, all of the outstanding preferred shares of Deciphera Pharmaceuticals, LLC (the “Exchange”). The Exchange was part of a series of transactions pursuant to which Deciphera Pharmaceuticals, LLC became our wholly owned subsidiary. We deemed the Exchange to be exempt from registration under the Securities Act, in accordance with Section 4(a)(2) of the Securities Act.



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***Use of Proceeds from Initial Public Offering***

On October 2, 2017, we completed the initial public offering of our common stock pursuant to which we issued and sold 7,500,000 shares of our common stock at a price to the public of \$17.00 per share. In addition, on October 4, 2017, we issued and sold an additional 666,496 shares of common stock at the initial public offering price of \$17.00 per share as a result of the partial exercise by the underwriters of their option to purchase additional shares of common stock.

The offer and sale of all of the shares in our initial public offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-220299), which was declared effective by the SEC on September 27, 2017, and a registration statement on Form S-1MEF (File No. 333-220681), which was automatically effective upon filing with the SEC on September 27, 2017. Following the sale of the shares in connection with the closing of our initial public offering, the offering terminated. J.P. Morgan Securities LLC and Piper Jaffray & Co. acted as joint book-running managers, JMP Securities LLC as lead manager and Nomura Securities International, Inc. as co-manager of our initial public offering.

We received aggregate gross proceeds from our initial public offering of approximately \$138.8 million, or aggregate net proceeds of approximately \$129.1 million after deducting underwriting discounts and commissions. None of the underwriting discounts and commissions or offering expenses were incurred or paid to directors or officers of ours or their associates or to persons owning 10 percent or more of our common stock or to any of our affiliates.

We have not used any of the net proceeds from the offering to make payments, directly or indirectly, to any director or officer of ours, or any of their associates, to any person owning 10 percent or more of our common stock or to any affiliate of ours. We have invested the net proceeds from the offering in money market accounts. There has been no material change in our planned use of the net proceeds from the offering as described in our final prospectus filed pursuant to Rule 424(b)(4) under the Securities Act with the SEC on September 28, 2017.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which Exhibit Index is incorporated herein by reference.

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1*	<a href="#">Reorganization Agreement and Plan of Merger by and among the Registrant, Deciphera Pharmaceuticals, LLC and the other parties named therein, dated October 2, 2017. (1)</a>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 5, 2017).</a>
3.2	<a href="#">Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on October 5, 2017).</a>
4.1*	<a href="#">Registration Rights Agreement by and among the Registrant and certain of its stockholders, dated October 2, 2017.</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1#	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2#	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101INS	XBRL Instance Document.
101SCH	XBRL Taxonomy Extension Schema Document.
101CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101DEF	XBRL Taxonomy Extension Definition Linkbase Document.

\* Filed herewith.

# This certification will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into such filing.

(1) Schedules and exhibits have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon its request; provided, however, that the Registrant may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any schedule or exhibit so furnished.

**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.

**DECIPHERA PHARMACEUTICALS, INC.**

Date: November 14, 2017

By: /s/ Thomas P. Kelly  
Thomas P. Kelly  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## REORGANIZATION AGREEMENT AND PLAN OF MERGER

**THIS REORGANIZATION AGREEMENT AND PLAN OF MERGER** (this “**Agreement**”) is made and entered into as of September 26, 2017, by and among Deciphera Pharmaceuticals, LLC, a Delaware limited liability company (the “**Company**”), Deciphera Pharmaceuticals, Inc., a Delaware corporation (the “**Parent**”), DP Mergersub, LLC, a Delaware limited liability company and a wholly owned Subsidiary of the Parent (“**Merger Sub**”), the members of the Company (the “**Members**”), including the Blockers, and the parties set forth on Exhibit E (the “**Blocker Holders**”). The Company, Parent, Merger Sub, Members, Blockers and Blocker Holders are sometimes collectively referred to herein as the “**Parties**” and individually as a “**Party**” and the Members, Blockers, and Blocker Holders are collectively referred to herein as the “ **Holders.**” Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in Section 8.

**WHEREAS**, the Parties wish to provide for the restructuring transaction described below, pursuant to which (a) the current Members of the Company (other than the Blockers) and the Blocker Holders will become holders of common stock of the Parent, (b) the Blockers will become direct wholly owned Subsidiaries of the Parent, and (c) the Company will become a direct and indirect wholly owned Subsidiary of the Parent (the “**Restructuring**”);

**WHEREAS**, prior to the consummation of the transactions contemplated hereby, the Parent was incorporated and formed the following wholly owned Subsidiaries: NLV-3 MergerSub, Inc., NLV-G MergerSub, Inc., SVLS MergerSub, Inc., DRAGSA 20 MergerSub, Inc., and Redmile MergerSub, Inc. (each, a “**Blocker Mergersub**”), and Merger Sub;

**WHEREAS**, as part of this Restructuring, effective as of immediately prior to the Effective Time, the Parties will effect the merger of each Blocker Mergersub with and into the applicable Blocker, as set forth in Schedule 1 hereto, with the Equity Securities of each Blocker held by the applicable Blocker Holder converting solely into shares of Parent Stock, in the amounts set forth in Schedule 1 hereto, with each Blocker continuing as the surviving entity and as a direct wholly owned Subsidiary of Parent and a member of the Company (such transactions as contemplated on Schedule 1 hereto, being hereby ratified, approved and confirmed in all respects);

**WHEREAS**, as part of this Restructuring, the Parties wish to provide for (a) immediately prior to the Effective Time (and following the Blocker Mergers) the contribution by the Contributing Member of each Company Share held by the Contributing Member solely in exchange for shares of Parent Stock as provided herein (the “**Contribution**”), and (b) immediately following the Contribution, and effective as of the Effective Time, the merger of Merger Sub with and into the Company, with each share of the Company (other than those shares held by the Blockers and the Parent) solely converted into shares of Parent Stock as provided herein, and the Company to be the surviving entity and a direct and indirect wholly owned Subsidiary of Parent (such transaction, the “**Merger**”);

**WHEREAS**, immediately prior to the Effective Time, each outstanding share appreciation right of the Company (each, a “**Company SAR**”) granted pursuant to the Company’s 2015 Equity Incentive Plan (as amended, the “**Company Plan**”) shall be converted into an option to purchase Common Shares (each a “**Converted SAR**”);

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**WHEREAS**, pursuant to the Merger, as of the Effective Time, holders of options to purchase Common Shares (“**Company Options**”), including Converted SARs, will receive options to purchase Parent Stock in accordance with the terms of the Parent Plan;

**WHEREAS**, immediately following the Restructuring, Parent will close the issuance of shares of Parent Stock in an initial public offering (“**IPO**”) pursuant to that certain registration statement filed with the United States Securities and Exchange Commission (“**SEC**”) prior to the Effective Time (the “**Registration Statement**”);

**WHEREAS**, for U.S. federal income tax purposes, it is intended that the Merger and the Contribution, taken together with the Blocker Mergers, the issuance of Parent Stock pursuant to the IPO, and the purchase of Parent Stock by Brightstar Associates, LLC pursuant to the Brightstar Purchase Agreement, are treated together as a transfer of equity interests in the Company (in the case of the Merger, the Contribution and the Blocker Mergers) to Parent and a transfer of other property to Parent in each case in exchange for stock of Parent in a transaction in which gain or loss is not recognized under Section 351 of the Code;

**WHEREAS**, the board of directors of the Company and the board of directors of the Parent have approved the Restructuring, this Agreement, the Merger, the Contribution and the other transactions contemplated hereby;

**WHEREAS**, by execution of this Agreement, the Parent, as sole member of Merger Sub and owner of all of the interests in Merger Sub, is hereby approving the Restructuring, this Agreement, the Merger, the Contribution and the other transactions contemplated hereby;

**WHEREAS**, notwithstanding any provision of the Operating Agreement, by execution of this Agreement, the Members, constituting all of the members of the Company and the owners of all of the Company Shares, are hereby approving the Restructuring, this Agreement, the Merger, the Contribution and the other transactions contemplated hereby;

**WHEREAS**, the transactions contemplated by the Restructuring and the IPO require no further action by the Members; and

**NOW, THEREFORE**, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement and intending to be legally bound hereby, the Parent, Merger Sub, the Members (including the Blockers), the Blocker Holders, and the Company agree as follows:

Section 1. Contribution.

1A. Notwithstanding any provision of the Operating Agreement (including without limitation Article IX thereof), the Contributing Member, subject to the satisfaction or waiver of the conditions set forth in Section 5B as of the time of the Contribution, hereby agrees to contribute to Parent effective as of immediately prior to the Effective Time all of the Company Shares set forth across from the Contributing Member’s name on Annex A, solely in exchange for the share(s) of Parent Stock as is set forth opposite the Contributing Member’s name in Annex A. The Contributing Member shall, effective as of the time of such Contribution, cease to be a member of the Company and shall thereupon cease to have or exercise any right or power as a member of the Company.

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1B. Notwithstanding any provision of the Operating Agreement (including without limitation Article IX thereof), in exchange for the Contribution, subject to the satisfaction or waiver of the conditions set forth in Section 5A as of the time of the Contribution, the Parent hereby agrees to issue to the Contributing Member effective as of immediately prior to the Effective Time the shares of Parent Stock set forth opposite the Contributing Member's name in Annex A and accepts the contribution to Parent by each the Contributing Member of the Contributing Member's Company Shares.

Section 2. The Merger; Effective Time.

2A. The Merger.

(i) The Parent, Merger Sub and the Company (Merger Sub and the Company sometimes being referred to herein as the "**Constituent Companies**") are hereby adopting a plan of merger, providing for, subject to the satisfaction or waiver of the conditions set forth in this Agreement, the merger of Merger Sub with and into the Company, with the Company being the surviving entity of the Merger. Upon the terms and subject to the satisfaction or waiver of the conditions set forth in this Agreement, this Merger shall be consummated in accordance with this Agreement.

(ii) At the Effective Time (as defined below), the separate corporate existence of Merger Sub shall cease and the Company, as the surviving entity of the Merger (hereinafter referred to for the periods at and after the Effective Time as the "**Surviving Company**"), shall continue its existence under the laws of the State of Delaware as a direct and indirect wholly owned Subsidiary of the Parent.

2B. Effects of the Merger. The Merger shall have the effects provided in Section 18-209(g) of the DE LLC Act.

2C. Certificate of Formation and Operating Agreement.

(i) The certificate of formation of the Company, as in effect immediately prior to the Effective Time, shall be the certificate of formation of the Surviving Company, until thereafter amended as provided by law and by the terms of such certificate of formation.

(ii) The limited liability company agreement of the Company, as in effect immediately prior to the Effective Time and set forth in that certain Third Amended and Restated Operating Agreement of the Company, dated May 26, 2017, by and among the Company and the Members (the "**Operating Agreement**"), shall be the limited liability company agreement of the Surviving Company, until amended pursuant to Section 2C(v) and thereafter amended as provided by law and by the terms of such limited liability company agreement.

(iii) At the Effective Time, each of the Blockers shall continue as a member of the Company. Pursuant to Sections 18-301(b)(3) and 18-101(b)(7) of the DE LLC Act and simultaneous with the Effective Time, notwithstanding any provision of the Operating Agreement, the Parent shall, automatically and without any further action of any Person being required, be admitted to the Surviving Company as a member of the Surviving Company and shall be bound by the terms of the Operating Agreement, and the Surviving Company shall be continued without dissolution. The Parent and each of the Blockers, by its execution of a

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counterpart signature page to this Agreement, hereby agrees to be bound by the terms of the Operating Agreement as a member of the Surviving Company.

(iv) Until successors are duly elected or appointed and qualified in accordance with applicable Law or until their death, resignation or removal in accordance with the Operating Agreement, the directors and officers of Merger Sub immediately prior to the Effective Time shall be the directors and officers of the Surviving Company unless otherwise determined by Merger Sub prior to the Effective Time.

(v) Notwithstanding any provision of the Operating Agreement and without any further action by any Person, pursuant to Section 18-209(f) of the DE LLC Act, the Operating Agreement shall automatically be amended and restated, contingent upon and effective as of immediately following the Effective Time and as of immediately prior to the IPO Closing, to read in its entirety as set forth on Exhibit B hereto, until thereafter amended as provided by law and by the terms of such limited liability company agreement.

2D. Filing of Certificate of Merger. Subject to the satisfaction or waiver of the conditions set forth in Section 5, following effectiveness of the Blocker Mergers and immediately prior to the closing of the issuance of shares of Parent Stock pursuant to the Registration Statement (the “**IPO Closing**”), and provided this Agreement has not theretofore been terminated pursuant to its terms, the Surviving Company shall direct its officers to file the Certificate of Merger in substantially the form of Exhibit A attached hereto (the “**Certificate of Merger**”) with the Secretary of State of the State of Delaware. The Parent and each director and officer of the Parent and the Company is hereby designated as an “authorized person” of the Company within the meaning of the DE LLC Act and is hereby authorized, for and on behalf of the Company, to execute, deliver and cause the filing of the Certificate of Merger with the Secretary of State of the State of Delaware.

2E. Effective Time. The Merger shall be effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware in accordance with the DE LLC Act, or such later date and time as may be specified therein and agreed to by the Company and Merger Sub (the date and time the Merger becomes effective being the “**Effective Time**”). At the Effective Time, the effect of the Merger shall be as provided in this Agreement and the applicable provisions of the DE LLC Act.

2F. Further Assurances. If, at any time after the Effective Time, the Surviving Company shall consider or be advised that any further deeds, assignments or assurances in law or any other acts are necessary, desirable or proper to vest, perfect or confirm, of record or otherwise, in the Surviving Company the title to any property or right of the Constituent Companies acquired or to be acquired by reason of, or as a result of, the Merger or to otherwise carry out the purposes of this Agreement or to effect the Merger, then the Surviving Company and its officers and directors and the representatives of Merger Sub as of the Effective Time shall execute and deliver all such deeds, assignments and assurances in law and do all other acts necessary, desirable or proper to vest, perfect or confirm title to such property or right in the Surviving Company, and the officers and directors of the Surviving Company and the Parent and the representatives of Merger Sub as of the Effective Time are fully authorized in the name of the Constituent Companies or otherwise to take any and all such actions solely for the purposes of this Section 2E.

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Section 3. Effects of the Merger on the Equity Securities of the Constituent Companies.

3A. Conversion of Securities of the Company.

(i) At the Effective Time (and, for the avoidance of doubt, following the Contribution), by virtue of the Merger and without any action on the part of the holders of shares of the Company or any member of or holder of limited liability company interests in the Merger Sub:

(a) All limited liability interests of Merger Sub issued and outstanding immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted solely into the right to receive shares in the Surviving Company following the Effective Time as is set forth opposite Parent's name in Annex A (such shares, together with the shares held by the Blockers in the Surviving Company, shall constitute all the outstanding shares of the Surviving Company).

(b) All shares of capital stock of the Company (the "**Company Shares**") held by the Company or any wholly owned Subsidiary of the Company (or held in the Company's treasury) immediately prior to the Effective Time shall be cancelled and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(c) Each common share of the Company ("**Common Shares**") held by the Members (other than the Blockers) immediately prior to the Effective Time will, by virtue of the Merger and without any action on the part of the holder thereof, be converted solely into the right to receive 5.65 share(s) of Parent Stock. As of the Effective Time, all such Common Shares shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist.

(d) Each Series A Preferred share of the Company ("**Series A Preferred Shares**") held by the Members (other than the Blockers) immediately prior to the Effective Time will, by virtue of the Merger and without any action on the part of the holder thereof, be converted solely into the right to receive 5.65 share(s) of Parent Stock. As of the Effective Time, all such Series A Preferred Shares shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist.

(e) Each Series B-1 Preferred share of the Company ("**Series B-1 Preferred Shares**") held by the Members (other than the Blockers) immediately prior to the Effective Time will, by virtue of the Merger and without any action on the part of the holder thereof, be converted solely into the right to receive 5.65 share(s) of Parent Stock. As of the Effective Time, all such Series B-1 Preferred Shares shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist.

(f) Each Series B-2 Preferred share of the Company ("**Series B-2 Preferred Shares**") held by the Members (other than the Blockers) immediately prior to the Effective Time will, by virtue of the Merger and without any action on the part of the holder thereof, be converted solely into the right to receive 5.65 share(s) of Parent Stock. As of the Effective Time, all such Series B-2 Preferred Shares shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist.



(g) Each Series C Preferred share of the Company (“**Series C Preferred Shares**”) held by the Members (other than the Blockers) immediately prior to the Effective Time will, by virtue of the Merger and without any action on the part of the holder thereof, be converted solely into the right to receive 5.65 share(s) of Parent Stock. As of the Effective Time, all such Series C Preferred Shares shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist.

(h) Each Company Share held by the Parent or a Blocker immediately prior to the Effective Time will, by virtue of the Merger and without any action on the part of the holder thereof, be converted solely into the right to receive shares in the Surviving Company following the Effective Time as is set forth opposite the Parent’s or such Blocker’s name in Annex A.

(i) From and after the Effective Time, except as set forth in Subsections 3A(i)(a) and 3A(i)(h), the holders of Company Shares immediately prior to the Effective Time shall cease to have any rights with respect to such Company Shares and their sole rights shall be those which they will have as holders of shares of Parent Stock.

**3B. Treatment of Company Options, SARs and Company Plans.**

(a) Immediately prior to the Effective Time, the Company shall convert each outstanding Company SAR into a Company Option by amending the terms of such Company SAR to, among other things, (i) redefine the term “measurement price” as “exercise price”, (ii) permit payment of the exercise price by one or more of the methods provided in Section 5(e) of the Company Plan and (iii) provide, upon the exercise of the award, for the issuance of a number of shares equal to the number of shares exercised (other than in connection with a “net exercise” pursuant to which the Company will reduce the number of shares issuable upon exercise by the largest whole number of shares with a fair market value that does not exceed the aggregate exercise price) (such amendment, the “**SAR Conversion**”).

(b) At the Effective Time, each Company Option (including, for the avoidance of doubt, each Converted SAR), that has been issued pursuant to the Company Plan and is outstanding immediately prior to the Effective Time (after giving effect to the SAR Conversion) shall be canceled in exchange for a non-qualified stock option under the 2017 Stock Option and Incentive Plan (each, a “**Parent Option**” under the “**Parent Plan**”). Such cancellation and substitution shall be effected in a manner that complies with Sections 409A and 424 of the Code. Each Parent Option shall otherwise continue to have, and be subject to, the same terms and conditions (including the vesting arrangements and other terms and conditions set forth in the Company Plan and the applicable agreement) as in effect immediately prior to the Effective Time (after giving effect to the SAR Conversion), except that (a) such option shall become exercisable for that number of shares of Parent Stock, equal to the product of (i) the number of Common Shares that would have been issuable upon exercise of such Parent Option immediately prior to the Effective Time multiplied by (ii) the Option Exchange Ratio, and (b) the per share exercise price for the shares of Parent Stock issuable upon exercise of such Parent Option shall be equal to the quotient (rounded up to the next whole cent) obtained by dividing (i) the exercise price per Common Share at which such Parent Option was exercisable immediately prior to the Effective Time by (ii) the Option Exchange Ratio. For purposes hereof, the “**Option Exchange Ratio**” shall equal a ratio,

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the numerator of which is the fair market value of one Common Share and the denominator of which equals the fair market value of one share of Parent Stock. No acceleration of the vesting of the unvested Company Options shall take place as a result of the consummation of the Merger, and the vesting terms and the expiration dates of the Parent Options shall be identical to the vesting terms and expiration dates of the Company Options. As of the Effective Time, Parent shall assume the Company Plan for the purpose of administering the Parent Options and shall amend and restate the Company Plan into the Parent Plan to, among other things, provide that (i) references to the Company shall be references to Parent, (ii) the Parent's board of directors or a committee thereof shall succeed to the authority and responsibility of the Company board of directors or any committee thereof with respect to administration of the Company Plan and (iii) references to Common Shares shall be references to Parent Stock.

(c) The Company shall take all actions necessary in order to effect the provisions of this Section 3B including, without limitation, seeking all necessary approvals, providing any notice required under the terms of the Company Plan and/or the applicable agreements.

3C. Adjustments to Consideration. The consideration to be issued in connection with the conversion and cancellation of the Company Shares and the consideration to be issued in connection with the conversion and cancellation of the Company Options and Company SARs provided for in this Agreement shall be adjusted appropriately and proportionally to reflect the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into or exercisable or exchangeable for Parent Stock or Company Shares), reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to Parent Stock or Company Shares occurring or having a record date on or after the date hereof and prior to the Effective Time.

#### Section 4. Rights of Holders: Procedure for Exchange.

4A. Effect of Reorganization. Annex A attached hereto sets forth a calculation of the equity capitalization of Parent following the Blocker Mergers, the Contribution, the Merger, and the Restructuring. For the avoidance of doubt, it is the intention of the Company, the Parent, the Blocker Holders, and the other Holders that the Blocker Holders receive the same portion of the Parent Stock that the applicable Blockers of which they are Blocker Holders would receive in respect of the limited liability company interests in the Company held by them prior to the Restructuring as if the Blocker Holders held the limited liability company interests in the Company held by such Blockers and to the extent that the number of shares of Parent Stock issued to the Blocker Holders in the Restructuring does not effectuate the foregoing, then, to the fullest extent permitted by law, the determination and distribution of the Parent Stock shall be adjusted at the Effective Time to effect the foregoing.

4B. Rights of Holders of Certificates Evidencing Company Shares. On and after the Effective Time and until surrendered for exchange, each certificate that immediately prior to the Effective Time (and, for the avoidance of doubt, following the Contribution) represented Company Shares (except Company Shares cancelled or extinguished or converted into shares in the Surviving Company pursuant to Section 3A above) shall be deemed for all purposes to evidence ownership of and to represent solely the right to receive the number of whole shares of Parent Stock into which such Company Shares shall have been converted

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pursuant to Section 3A above. In any matters relating to such certificates formerly representing Company Shares, Parent may rely conclusively upon the record of Members maintained by the Company containing the names and addresses of the holders of record of Company Shares as of immediately prior to the Effective Time.

4C. Procedure for Exchange of Company Shares.

(a) After the Effective Time, holders of certificates theretofore evidencing outstanding Company Shares (except shares cancelled or extinguished or converted into shares in the Surviving Company pursuant to Section 3A), upon surrender of such certificates to the secretary of Parent, shall be entitled to receive uncertificated book entry shares or certificates, to the extent the Parent Stock are certificated, representing the number of shares of Parent Stock into which Company Shares theretofore represented by the certificates so surrendered are exchangeable as provided in Section 3A hereof. Parent shall not be obligated to deliver any such Parent Stock to which any former holder of Company Shares is entitled until such holder surrenders the certificate or certificates representing such Company Shares. Upon surrender, each certificate formerly representing Company Shares shall be cancelled. If there is a transfer of Company Shares ownership which is not registered in the transfer records of the Company, a certificate representing the proper number of shares of Parent Stock may be issued to a Person other than the Person in whose name the certificate so surrendered is registered if: (x) upon presentation to the secretary of Parent, such certificate shall be properly endorsed or otherwise be in proper form for transfer, (y) the Person requesting such payment shall pay any transfer or other Taxes required by reason of the issuance of Parent Stock to a Person other than the registered holder of such certificate or establish to the reasonable satisfaction of Parent that such Tax has been paid or is not applicable, and (z) the issuance of such Parent Stock shall not, in the sole discretion of Parent, violate the requirements of the Regulation D "safe harbor" of the Securities Act with respect to the private placement of Parent Stock that will result from the Restructuring.

(b) All Parent Stock issued upon the conversion of Company Shares, in accordance with the above terms and conditions shall be deemed to have been issued and paid in full satisfaction of all rights pertaining to such Company Shares.

(c) With respect to each holder of outstanding Company Shares, the number of shares of Parent Stock receivable by such holder under this Agreement shall be aggregated for all Company Shares held by such holder, and, following such aggregation, any holder of Company Shares who would otherwise be entitled to receive a fraction of a share of Parent Stock shall, in lieu thereof, receive an amount in cash equal to the fair value of such fraction of a share as of the Effective Time as determined in good faith by the Board.

(d) Any Parent Stock issued pursuant to the Restructuring shall bear the legend required by the Registration Rights Agreement and otherwise be subject to the transfer limitations set forth therein.

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Section 5. Conditions of the Obligations at the Effective Time.

5A. The obligation of the Parent and Merger Sub to consummate the transactions contemplated hereby at the Effective Time is subject to the satisfaction as of the Effective Time of the following conditions:

(i) Representations and Warranties. Each of the representations and warranties contained in Section 6 and Section 7 shall be true and correct in all material respects at and as of the date of this Agreement and as of the Effective Time.

(ii) Covenants.

(a) The Blockers, Blocker Holders, and Members shall have performed in all material respects all of the covenants and agreements required to be performed hereunder or under the other Transaction Documents at or prior to the Effective Time.

(b) The IPO Closing shall be prepared to occur immediately after the closing of the Restructuring.

(iii) Each of the conditions to the IPO Closing and transactions to be completed in advance of the IPO Closing shall have been performed.

(iv) The Company and shall have entered into an underwriting agreement in connection with the IPO.

(v) The Blocker Mergers shall have become effective in accordance with the applicable provisions of the DGCL and the DE LLC Act.

Any condition specified in this Section 5A, other than Sections 5A(iii) and 5A(v), may be waived by the Company; provided that each such condition shall be deemed satisfied solely for purposes of this Section 5A if the Effective Time occurs.

5B. The obligation of the Members and the Company to consummate the transactions contemplated hereby at the Effective Time is subject to the satisfaction as of the Effective Time of the following conditions:

(i) Covenants. The Parent, the Blocker Holders, and the Members named as Parties thereto shall have executed and delivered the Registration Rights Agreement, as set forth on Exhibit C (the "**Registration Rights Agreement**").

(ii) Each of the conditions to the IPO Closing and transactions to be completed in advance of the IPO Closing shall have been performed.

(iii) The Blocker Mergers shall have become effective in accordance with the applicable provisions of the DGCL and the DE LLC Act.

Section 6. Representations and Warranties of the Company. As a material inducement to the Holders to enter into this Agreement and to consummate the transactions contemplated hereby, the Parent and Company hereby represent and warrant to the Holders as follows:

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6A. Organization; Power and Authority. The Parent, the Company and each of its Subsidiaries is a corporation, limited liability company or other legal entity duly incorporated or formed, as applicable, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or formation, as applicable, and is qualified to do business in every jurisdiction in which the ownership of its properties or the conduct of its business requires it to be so qualified, except for such jurisdictions where the failure to be so qualified, individually or in the aggregate, would not have a material adverse effect. The Parent, the Company and each of their Subsidiaries possesses all requisite corporate, limited liability company or other entity power and authority to own and operate its properties, to carry on its business as now conducted, to execute and deliver this Agreement and the other Transaction Documents to which it is a party and to consummate the transactions contemplated hereby and thereby.

6B. Valid Issuance of Shares. The Parent Stock, when issued, exchanged and delivered in accordance with the terms and for the consideration set forth in this Agreement, will be validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under the Registration Rights Agreement, Section 4C(d) of this Agreement and the lock-up or market standoff agreements and under the applicable state and federal securities laws. There are no Liens or Encumbrances on the Parent Stock. Assuming the accuracy of the representations in Section 7 of this Agreement the Parent Stock will be issued in compliance with all applicable federal and state securities laws.

6C. Authorization; No Breach. The execution, delivery and performance of this Agreement and each other Transaction Document to which a Blocker, the Company or any of their Subsidiaries is a party and the consummation of the transactions contemplated hereby and thereby have been duly authorized, executed and delivered by such entity, as applicable, and constitute a valid and binding obligation of such entity, as applicable, enforceable against such entity, as applicable, in accordance with their respective terms, except (a) as limited by Laws of general application relating to bankruptcy, insolvency and the relief of debtors and (b) as limited by rules of law governing specific performance, injunctive relief or other equitable remedies and by general principles of equity.

6D. Taxation. The Contribution and the Merger, taken together with the Blocker Mergers, the issuance of Parent Stock pursuant to the IPO, and the purchase of Parent Stock by Brightstar Associates, LLC pursuant to the Brightstar Purchase Agreement, shall qualify as a transfer of property to Parent described in Section 351 of the Code.

Section 7. Representations and Warranties of the Members. As a material inducement to the Parent and Company to enter into this Agreement and consummate the transactions contemplated hereby, each Member, solely with respect to itself, severally and not jointly hereby represents and warrants to the Parent as follows:

7A. Authorization. Such Member possesses all requisite power and authority necessary to execute and deliver this Agreement and to carry out its obligations contemplated by this Agreement and the Restructuring to which such Member is a party. Such Member's execution, delivery and performance of this Agreement and Transaction Documents to which such Member is a party have been duly authorized by such Member.

7B. Title. As of the date of this Agreement, such Member is the record and beneficial owner of that number of Company Shares set forth opposite such Member's name on Schedule 7B hereto, free and clear of any other restrictions on transfer (other than any restrictions contained in the Operating Agreement or under the Securities Act and state

securities laws), Taxes, Liens, options, warrants, purchase rights, contracts, commitments, equities, claims, and demands, and such securities constitute all of the Equity Securities of the Company owned, beneficially or of record, by such Member. Except as set forth in this Agreement and the Operating Agreement, such Member is not a party to any option, warrant, purchase right, or other contract or commitment (other than this Agreement and the Operating Agreement) that could require such Member to sell, transfer or otherwise dispose of any capital stock of the Company. Such Member is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any limited liability company interests of the Company.

7C. Accredited Investor: Investment. Each Member hereby represents that such Member (i) is an “accredited investor” as defined under Rule 501 promulgated under the Securities Act; (ii) is acquiring the shares of Parent Stock solely for his, her or its own account for investment purposes, and not with a view to the distribution thereof in violation of any applicable securities laws; and (iii) is a sophisticated investor with knowledge and experience in business and financial matters such that such Member is capable of evaluating the Agreement.

7D. No Broker. No broker, finder or agent is entitled to any brokerage fees, finder’s fees or commissions in connection with the transactions contemplated by this Agreement based upon arrangements made by such Member.

7E. Taxation. Such Member has not taken any action or failed to take any action, and does not know of any fact or circumstance that, in each case, could reasonably be expected to prevent the Contribution and the Merger, taken together with the Blocker Mergers, the issuance of Parent Stock pursuant to the IPO, and the purchase of Parent Stock by Brightstar Associates, LLC pursuant to the Brightstar Purchase Agreement, from qualifying as a transfer of property to Parent described in Section 351 of the Code. Such Member has not entered, on or prior to the date of the Effective Time, into any binding commitment to sell, transfer, or otherwise dispose of its Parent Stock.

7F. HSR. Each Member represents that as of the Effective Time, either (1) the Ultimate Parent Entity of such Investor as determined in accordance with 16 C.F.R. s. 801.1(a) is the same as the Ultimate Parent Entity of such Investor immediately prior to the Effective Time, or (2) such Member will not acquire and hold more than \$80.8 million of Parent Stock.

Section 8. Definitions. For the purposes of this Agreement, the following terms have the meanings set forth below:

“**Blocker Holders**” has the meaning set forth in the Preamble.

“**Blocker Mergers**” has the meaning set forth in Schedule 1 hereto, each as effected pursuant to an Agreement and Plan of Merger in substantially the form set forth in Exhibit D.

“**Blocker Mergersub**” has the meaning set forth in the Recitals.

“**Blockers**” means each of NLV-3 Deciphera, Inc., NLV-G Deciphera, Inc., SVLS-Deciphera, Inc., DRAGSA 20 LLC, and Redmile Deciphera Holdings, Inc.

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“**Brightstar Purchase Agreement**” means that Purchase Agreement, dated as of September 26, 2017, by and between Parent and Brightstar Associates, LLC.

“**Certificate of Merger**” has the meaning set forth in Section 2D.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Common Shares**” has the meaning set forth in Section 3A(i)(c).

“**Company**” has the meaning set forth in the Preamble.

“**Company Options**” has the meaning set forth in the Recitals.

“**Company Plan**” has the meaning set forth in the Recitals.

“**Company SAR**” has the meaning set forth in the Recitals.

“**Company Shares**” has the meaning set forth in Section 3A(i)(b).

“**Constituent Companies**” has the meaning set forth in Section 2A(i).

“**Contributing Member**” means the Members set forth on Schedule 2 hereto.

“**Contribution**” has the meaning set forth in the Recitals.

“**DE LLC Act**” means Delaware Limited Liability Company Act, as amended from time to time.

“**DGCL**” means the General Corporation Law of the State of Delaware, as amended from time to time.

“**Effective Time**” has the meaning set forth in Section 2E.

“**Encumbrances**” means any Liens, agreements (other than the applicable Governing Documents and any Transaction Documents), voting trusts, proxies and other arrangements or restrictions of any kind whatsoever (other than applicable federal and state securities laws).

“**Equity Securities**” means any membership interests, limited liability company interests, partnership interests, profits interests, capital stock or other equity securities or ownership interests, or securities exercisable or exchangeable for or convertible into, or other rights to acquire, membership interests, limited liability company interests, partnership interests, capital stock or other equity securities or ownership interests.

“**Governing Documents**” means, with respect to any Person, its articles of organization or certificate of formation and limited liability company agreement or limited partnership agreement, certificate of incorporation and bylaws, partnership agreement or similar governing documents.

“**Governmental Entity**” means (i) any federal, state, province, local, municipal, tribal, foreign or other government; (ii) any governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, entity or regulatory organization and any court or other tribunal); (iii) any body exercising, or entitled to exercise,

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any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature, including any arbitral tribunal; and (iv) any agency, authority, board, bureau, commission, department, office or instrumentality of any nature whatsoever of any federal, state, province, local, municipal or foreign government or other political subdivision or otherwise, or any officer or official thereof with requisite authority.

“**Holders**” has the meaning set forth in the Preamble.

“**IPO**” has the meaning set forth in the Recitals.

“**IPO Closing**” has the meaning set forth in Section 2D.

“**Laws**” means any federal, state, local, municipal, foreign or other statute, law, ordinance, regulation, rule, code, order, principle of common law or judgment enacted, promulgated, issued, enforced or entered by any Governmental Entity, or other requirement or rule (including pursuant to any settlement, consent decree or determination of or settlement with an arbitrator) of law.

“**Lien**” or “**Liens**” means any mortgage, pledge, security interest, Encumbrance, lien or charge of any kind.

“**Merger**” has the meaning set forth in the Recitals.

“**Merger Sub**” has the meaning set forth in the Preamble.

“**Operating Agreement**” has the meaning set forth in Section 2C(ii).

“**Option Exchange Ratio**” has the meaning set forth in Section 3B(b).

“**Parent**” has the meaning set forth in the Preamble.

“**Parent Option**” has the meaning set forth in Section 3B(b).

“**Parent Plan**” has the meaning set forth in Section 3B(b).

“**Parent Stock**” means the common stock, par value \$0.01, of Deciphera Pharmaceuticals, Inc.

“**Party**” or “**Parties**” has the meaning set forth in the Preamble.

“**Person**” means a natural person, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a Governmental Entity or any department, agency or political subdivision thereof.

“**Registration Rights Agreement**” has the meaning set forth in Section 5B.

“**Registration Statement**” has the meaning set forth in the Recitals.

“**Restructuring**” has the meaning set forth in the Recitals.

“**SAR Conversion**” has the meaning set forth in Section 3B(a).



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“**Schedules**” means, collectively, the schedules hereto, and “**Schedule**” means any of the Schedules individually.

“**SEC**” has the meaning set forth in the Recitals.

“**Securities Act**” means the Securities Act of 1933, as amended, or any similar federal Law then in force.

“**Series A Preferred Shares**” has the meaning set forth in Section 3A(i)(d).

“**Series B-1 Preferred Shares**” has the meaning set forth in Section 3A(i)(e).

“**Series B-2 Preferred Shares**” has the meaning set forth in Section 3A(i)(f).

“**Series C Preferred Shares**” has the meaning set forth in Section 3A(i)(g).

“**Subsidiary**” means, with respect to any Person, any corporation, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a partnership, association or other business entity, a majority of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a partnership, association or other business entity if such Person or Persons shall be allocated a majority of partnership, association or other business entity gains or losses or shall be or control the managing director or general partner of such partnership, association or other business entity.

“**Surviving Company**” has the meaning set forth in Section 2A(ii).

“**Tax**” or “**Taxes**” means federal, state, county, local, foreign or other income, gross receipts, ad valorem, franchise, profits, sales or use, transfer, registration, excise, real or personal property, escheat, value added, capital interests, license, payroll, wage or other withholding, employment, social security, severance, stamp, occupation, alternative or add-on minimum, estimated and other taxes, customs, duties, governmental fees, or other like assessment or charge of any kind whatsoever (including deficiencies, penalties, additions to tax, and interest attributable thereto) whether disputed or not.

“**Transaction Documents**” means this Agreement, the Agreement and Plan of Merger of each of the Blockers and Blocker Mergersubs, and the other agreements, certificates and instruments required to be delivered at the Effective Time to other Parties hereto in accordance with this Agreement.

Section 9. Miscellaneous.

9A. Notices. All notices and other communications hereunder shall be in writing and shall be sufficiently given if made by hand delivery, by telecopier, by overnight delivery service for next business day delivery, or by registered or certified mail (return receipt

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requested), in each case with delivery charges prepaid, to the parties at the following addresses (or at such other address for a party as shall be specified by it by like notice):

If to the Company:

500 Totten Pond Road  
Waltham, MA 02451  
Attention: Chief Executive Officer and Chief Financial Officer

With copies to (such copy not to constitute notice):

Goodwin Procter LLP  
100 Northern Avenue  
Boston, MA 02210  
Fax: 617-523-1231  
Attention: Richard Hoffman

If to Parent:

500 Totten Pond Road  
Waltham, MA 02451  
Attention: Chief Executive Officer and Chief Financial Officer

With copies to (such copy not to constitute notice):

Goodwin Procter LLP  
100 Northern Avenue  
Boston, MA 02210  
Fax: 617-523-1231  
Attention: Richard Hoffman

All such notices and other communications shall be deemed to have been duly given as follows: when delivered by hand, if personally delivered, when received; (i) if delivered by registered or certified mail (return receipt requested), when receipt acknowledged; or (ii) if telecopied, on the day of transmission or, if that day is not a business day, on the next business day; and the next business day delivery after being timely delivered to a recognized overnight delivery service.

9B. Intentionally Omitted.

9C. Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. References to Sections and Articles refer to Sections and Articles of this Agreement unless otherwise stated. Words such as "herein," "hereinafter," "hereof," "hereto," "hereby" and "hereunder," and words of like import, unless the context requires otherwise, refer to this Agreement (including the Schedules hereto). As used in this Agreement, the masculine, feminine and neuter genders shall be deemed to include the others if the context requires.

9D. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in

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full force and effect and shall in no way be affected, impaired or invalidated, and the Parties shall negotiate in good faith to modify this Agreement and to preserve each Party's anticipated benefits under this Agreement.

9E. Amendment. This Agreement may not be amended or modified, or any provision hereof waived, except by an instrument in writing approved by the Parties to this Agreement and signed on behalf of each of the Parties hereto.

9F. Waiver. At any time prior to the Effective Time, any Party hereto may (a) extend the time for the performance of any of the obligations or other acts of any other Party hereto or (b) waive compliance with any of the agreements of any other Party or with any conditions to its own obligations, in each case only to the extent such obligations, agreements and conditions are intended for its benefit. Any such extension or waiver shall only be effective if made in writing and duly executed by the Party giving such extension or waiver.

9G. Miscellaneous. This Agreement (together with all other documents and instruments referred to herein): (a) constitutes the entire agreement, and supersedes all other prior agreements and undertakings, both written and oral, among the Parties, with respect to the subject matter hereof; and (b) shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns, but, to the fullest extent permitted by law, shall not be assignable by any Party hereto without the prior written consent of the other Parties hereto.

9H. Counterparts; Facsimile Signatures. This Agreement may be executed in two or more counterparts, which together shall constitute a single agreement. This Agreement and any documents relating to it may be executed and transmitted to any other Party by facsimile or email of a PDF, which, to the fullest extent permitted by law, facsimile or PDF shall be deemed to be, and utilized in all respects as, an original, wet-inked document.

9I. Third Party Beneficiaries. Each Party hereto intends that this Agreement, except as expressly provided herein, shall not benefit or create any right or cause of action in or on behalf of any Person (including, without limitation, any Person holding any Company Options and Company SARs) other than the Parties hereto.

9J. Consent to Jurisdiction. To the fullest extent permitted by law, the Parties hereto agree that jurisdiction and venue in any suit, action, or proceeding brought by any Party pursuant to this Agreement or the transactions contemplated hereby shall properly and exclusively lie in the Chancery Court of the State of Delaware, and any state appellate court therefrom within the state of Delaware (or, if the Chancery Court of the State of Delaware declines to accept jurisdiction over a particular matter, any state or federal court within the state of Delaware). To the fullest extent permitted by law, each Party hereto also agrees not to bring any suit, action or proceeding, arising out of or relating to this Agreement or the transactions contemplated hereby in any other court (other than upon the appeal of any judgment, decision or action of any such court located in Delaware or, as applicable, any federal appellate court that includes the state of Delaware within its jurisdiction). To the fullest extent permitted by law, by execution and delivery of this agreement, each Party hereto irrevocably submits to the jurisdiction of such courts for itself and in respect of its property with respect to such suit, action or proceeding. To the fullest extent permitted by law, the Parties hereto irrevocably agree that venue would be proper in such court, and hereby waive any objection that any such court is an improper or inconvenient forum for the resolution of such suit, action or proceeding. The Parties hereto further agree that, to the fullest extent permitted by law, the mailing by certified or

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registered mail, return receipt requested, of any process required by any such court shall constitute valid and lawful service of process against them, without necessity for service by any other means provided by statute or rule of court. Nothing in this Agreement will affect the right of any Party to this agreement to serve process in any other manner permitted by law.

9K. WAIVER OF JURY TRIAL. THE PARTIES HERETO WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING UNDER THIS AGREEMENT OR ANY ACTION OR PROCEEDING ARISING OUT OF THE TRANSACTIONS CONTEMPLATED HEREBY, REGARDLESS OF WHICH PARTY INITIATES SUCH ACTION OR PROCEEDING.

9L. Tax Matters.

(i) Each Member (other than Blockers) agrees, on a several basis, to pay, and to indemnify and hold harmless Parent, Mergersub, and their affiliates for all withholding Taxes and transfer, documentary, sales, use, stamp, registration, or other similar Taxes incurred in connection with such Member's transfer of Company Shares pursuant to the Contribution or the Merger.

(ii) The Parties hereto agree that for U.S. federal income tax purposes, the Merger and the Contribution, taken together with the Blocker Mergers, the issuance of Parent Stock pursuant to the IPO, and the purchase of Parent Stock by Brightstar Associates, LLC pursuant to the Brightstar Purchase Agreement, are intended to be treated together as a transfer of equity interests in the Company (in the case of the Merger, the Contribution and the Blocker Mergers) to Parent and a transfer of other property to Parent in each case in exchange for stock of Parent in a transaction in which gain or loss is not recognized under Section 351 of the Code. The Parties hereto further agree that, for all Tax purposes, the Merger, the Contribution, the Blocker Mergers, the issuance of Parent Stock pursuant to the IPO, and the purchase of Parent Stock by Brightstar Associates, LLC pursuant to the Brightstar Purchase Agreement shall be reported consistent with this intent, and none of them (nor any of their respective affiliates) will take any inconsistent Tax position on any tax return or otherwise, except as otherwise required by a "determination" within the meaning of Section 1313(a)(1) of the Code or any similar provision of any state, foreign, or local law.

(iii) Neither Parent nor any of its Subsidiaries has any plan or intention to liquidate, merge, transfer all or substantially all of the assets of, or otherwise dissolve the Surviving Company or any of the companies that is a "Surviving Company" as defined in and pursuant to the Agreement and Plan of Merger of each of the Blockers and Blocker Mergersubs.

(iv) None of the Parties or any of their respective Subsidiaries shall take any action, or fail to take any reasonable action, as a result of which the Merger and Contribution, taken together with the Blocker Mergers, the issuance of Parent Stock pursuant to the IPO, and the purchase of Parent Stock by Brightstar Associates, LLC pursuant to the Brightstar Purchase Agreement, would reasonably be expected to fail to qualify as a transfer of equity interests in the Company to Parent that is described in Section 351 of the Code.

9M. Expenses. All actual, reasonable out of pocket expenses incurred by the Blockers and the Members in connection with the Merger, the Restructuring and the IPO will be borne by the Company.

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9N. Termination. This Agreement shall terminate upon the first to occur of December 26, 2017 or the Company and the majority of holders of Company Shares agreeing not to pursue the Restructuring.

\* \* \* \* \*

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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the day and year first above written.

**COMPANY:**

**DECIPHERA PHARMACEUTICALS, LLC**

By: /s/ Michael D. Taylor

Name: Michael D. Taylor

Title: President and Chief Executive Officer

**PARENT:**

**DECIPHERA PHARMACEUTICALS, INC.**

By: /s/ Michael D. Taylor

Name: Michael D. Taylor

Title: President and Chief Executive Officer

**MERGER SUB:**

**DP MERGERSUB, LLC**

By: /s/ Michael D. Taylor

Name: Michael D. Taylor

Title: President and Chief Executive Officer



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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the day and year first above written.

**BIOCHENOMIX, L.L.C.**

**By: Biochenomix, Inc., as sole member**

By: /s/ Daniel L. Flynn

Name: Daniel L. Flynn

Title: Managing Member





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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the day and year first above written.

**DRAGSA 20 LLC**

**By: Viking Global Investors LP, its non-member manager**

By: /s/ Matthew Bloom

Name: Matthew Bloom

Title: Authorized Signatory

**DRAGSA 14 LLC**

**By: Viking Global Investors LP, its non member manager**

By: /s/ Matthew Bloom

Name: Matthew Bloom

Title: Authorized Signatory







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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the day and year first above written.

**New Leaf Ventures III, L.P.**

By: /s/ Craig L. Slutzkin  
Name: Craig L. Slutzkin  
Title: Chief Financial Officer of the General  
Partner of the General Partner

**New Leaf Biopharma Opportunities I, L.P.**

By: /s/ Craig L. Slutzkin  
Name: Craig L. Slutzkin  
Title: Chief Financial Officer of the General  
Partner of the General Partner

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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the day and year first above written.

**SV LIFE SCIENCES FUND VI, L.P.**

**By: SV Life Sciences Fund VI (GP), L.P., its sole General Partner**

**By: SVLSF VI, LLC, its sole general partner**

By: /s/ Denise W. Marks

Name: Denise W. Marks

Title: SVLSF VI, LLC, Member

**SV LIFE SCIENCES FUND VI STRATEGIC PARTNERS, L.P.**

**By: SV Life Sciences Fund VI (GP), L.P.  
Its: Sole General Partner**

**By: SVLSF VI, LLC**

**Its: Sole General Partner**

By: /s/ Denise W. Marks

Name: Denise W. Marks

Title: SVLSF VI, LLC, Member





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**IN WITNESS WHEREOF**, the Parties hereto have executed this Agreement as of the day and year first above written.

**Viking Global Opportunities Intermediate LP**

**By: Viking Global Opportunities GP LLC, its general partner**

By:         /s/ Matthew Bloom          
Name: Matthew Bloom  
Title: Authorized Signatory

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**EXHIBIT A**  
**CERTIFICATE OF MERGER**

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**EXHIBIT B**  
**LLC AGREEMENT**

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**EXHIBIT C**

**REGISTRATION RIGHTS AGREEMENT**

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**EXHIBIT D**

**AGREEMENT AND PLAN OF MERGER**

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**EXHIBIT E**

**BLOCKER HOLDER SCHEDULE**

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## SCHEDULE 1

### RESTRUCTURING SCHEDULE

The mergers set forth in items 1 through 5 of this Schedule 1 are referred to in this Agreement as the “Blocker Mergers.”

1. NLV-3 MergerSub, Inc. will merge with and into NLV-3 Deciphera, Inc. (“Blocker Merger 1”)
  - a. The shares of common stock of NLV-3 Deciphera, Inc. will be converted into 1,957,832 shares of Parent Stock
  - b. NLV-3 Deciphera, Inc. will be the surviving entity and continue as a member of the Company
2. Simultaneous with Blocker Merger 1, NLV-G MergerSub, Inc. will merge with and into NLV-G Deciphera, Inc.
  - a. The shares of common stock of NLV-G Deciphera, Inc. will be converted into 1,771,308 shares of Parent Stock
  - b. NLV-G Deciphera, Inc. will be the surviving entity and continue as a member of the Company
3. Simultaneous with Blocker Merger 1, SVLS MergerSub, Inc. will merge with and into SVLS-Deciphera, Inc.
  - a. The shares of common stock of SVLS-Deciphera, Inc. will be converted into 1,566,303 shares of Parent Stock
  - b. SVLS-Deciphera, Inc. will be the surviving entity and continue as a member of the Company
4. Simultaneous with Blocker Merger 1, DRAGSA 20 MergerSub, Inc. will merge with and into DRAGSA 20 LLC
  - a. all of the limited liability company interests in DRAGSA 20 LLC will be converted into 821,238 shares of Parent Stock
  - b. DRAGSA 20 LLC will be the surviving entity and continue as a member of the Company
5. Simultaneous with Blocker Merger 1, Redmile MergerSub, Inc. will merge with and into Redmile Deciphera Holdings, Inc.
  - a. The shares of common stock of Redmile Deciphera Holdings, Inc. will be converted into 372,880 shares of Parent Stock
  - b. Redmile Deciphera Holdings, Inc. is be the surviving entity and continue as a member of the Company

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**SCHEDULE 2**

**CONTRIBUTING MEMBER**



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**SCHEDULE 7B**

**MEMBER CAPITALIZATION SCHEDULE**

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ANNEX A

**CALCULATION OF DISTRIBUTION TO HOLDERS**

**DECIPHERA PHARMACEUTICALS, INC.  
REGISTRATION RIGHTS AGREEMENT**

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## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this “**Agreement**”), is made as of the 27<sup>th</sup> day of September, 2017, by and among Deciphera Pharmaceuticals, Inc., a Delaware corporation (the “**Company**”) and each of the investors listed on [Schedule A](#) hereto, each of which is referred to in this Agreement as an “**Investor**”. Capitalized terms used herein without definition shall, unless otherwise indicated, have the meaning specified in the Company’s Certificate of Incorporation, as may be amended or restated from time to time.

### RECITALS

**WHEREAS**, the Company and certain of the Investors entered into a Second Amended and Restated Investors’ Rights Agreement, dated as of May 26, 2017 (the “**Investor Rights Agreement**”), in connection with the purchase by such Investors of Series C Preferred Shares from the Company, which they now wish to terminate in anticipation of the Company’s initial public offering.

**WHEREAS**, the Company and the Investors hereby agree that this Agreement shall govern the registration rights of the Common Shares issued or issuable to the Investors and shall govern certain other matters as set forth in this Agreement.

**NOW, THEREFORE**, the parties hereby agree as follows:

1. Definitions. For purposes of this Agreement:

1.1 “**Affiliate**” means, with respect to any specified Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with such Person, including without limitation any general partner, managing member, officer or director of such Person or any venture capital, private equity or other investment fund or account now or hereafter existing that is controlled by one or more general partners or managing members of, or shares the same management company or investment advisor with, such Person.

1.2 “**Board**” means the board of directors of the Company.

1.3 “**Common Shares**” means shares of common stock, par value \$0.01 per share, of the Company.

1.4 “**Damages**” means any loss, damage, claim or liability (joint or several) to which a party hereto may become subject under the Securities Act, the Exchange Act, or other federal or state law, insofar as such loss, damage, claim or liability (or any action in respect thereof) arises out of or is based upon: (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement of the Company, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto; (ii) an omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by the indemnifying party (or any of its agents or Affiliates) of the Securities Act, the Exchange Act, any state securities law, or any rule or regulation promulgated under the Securities Act, the Exchange Act, or any state securities law.

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1.5 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

1.6 “**Excluded Registration**” means (i) a registration relating to the sale of securities to employees of the Company or a Subsidiary pursuant to a stock option, stock purchase, or similar plan; (ii) a registration on Form S-8, Form S-4 or any successor form to either of the foregoing; or (iii) a registration in which the only Common Shares being registered are Common Shares issuable upon conversion of debt securities that are also being registered.

1.7 “**Form S-1**” means such form under the Securities Act as in effect on the date hereof or any successor registration form under the Securities Act subsequently adopted by the SEC.

1.8 “**Form S-3**” means such form under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the SEC that permits incorporation of substantial information by reference to other documents filed by the Company with the SEC.

1.9 “**Holder**” means any holder of Registrable Securities who is a party to this Agreement.

1.10 “**Immediate Family Member**” means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including, adoptive relationships, of a natural person referred to herein.

1.11 “**Initiating Holders**” means, collectively, Holders who properly initiate a registration request under this Agreement.

1.12 “**IPO**” means the Company’s first underwritten public offering of its Common Shares under the Securities Act.

1.13 “**Person**” means any individual, corporation, partnership, trust, limited liability company, association or other entity.

1.14 “**Principal Investor**” means each of Brightstar Associates LLC (“Brightstar”), New Leaf Ventures III, L.P. and any Affiliates (collectively, “New Leaf”) and SV Life Sciences Fund VI, L.P., SV Life Sciences Fund VI Strategic Partners, LP, and any Affiliates (“SVLS”), Viking Global Opportunities Intermediate LP, DRAGSA 14 LLC and any Affiliates (collectively, “Viking”), and Redmile Capital Fund, LP, Redmile Capital Offshore Fund, Ltd., Redmile Capital Offshore Fund II, Ltd., Redmile Special Opportunities Fund, Ltd., Redmile Biopharma Investments I, L.P., and any Affiliates (“Redmile”) and any Person to which the rights under this Agreement may be assigned by Brightstar, New Leaf, SVLS, Viking, and Redmile as the case may be, pursuant to clause (i) or (ii) of [Section 3.1](#) and which holds at least 480,250 Common Shares (subject to appropriate adjustment for share splits, share dividends, combinations, and other recapitalizations).

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1.15 “**Registrable Securities**” means (i) any Common Shares held by the Investors; (ii) any Common Shares, or any Common Shares issued or issuable (directly or indirectly) upon conversion and/or exercise of any other securities of the Company, acquired by the Investors after the date hereof; and (iii) any Common Shares issued as (or issuable upon the conversion or exercise of any warrant, right, or other security that is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares referenced in clauses (i) and (ii) above; excluding in all cases, however, any Registrable Securities sold by a Person in a transaction in which the applicable rights under this Agreement are not assigned pursuant to [Subsection 3.2](#), and excluding for purposes of [Section 2](#) any shares for which registration rights have terminated pursuant to [Subsection 2.13](#) of this Agreement.

1.16 “**Registrable Securities then outstanding**” means the number of shares determined by adding the number of outstanding Common Shares that are Registrable Securities and the number of Common Shares issuable (directly or indirectly) pursuant to then exercisable and/or convertible securities that are Registrable Securities.

1.17 “**Restricted Securities**” means the securities of the Company required to be notated with the legend set forth in [Subsection 2.12\(b\)](#) hereof.

1.18 “**SEC**” means the Securities and Exchange Commission.

1.19 “**SEC Rule 144**” means Rule 144 promulgated by the SEC under the Securities Act.

1.20 “**SEC Rule 145**” means Rule 145 promulgated by the SEC under the Securities Act.

1.21 “**Securities Act**” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

1.22 “**Selling Expenses**” means all underwriting discounts, selling commissions, and stock transfer taxes applicable to the sale of Registrable Securities, and fees and disbursements of counsel for any Holder, except for the fees and disbursements of the Selling Holder Counsel borne and paid by the Company as provided in [Subsection 2.6](#).

1.23 “**Subsidiary**” means with respect to any Person, any corporation, joint venture, limited liability company, partnership, association or other business entity of which more than 50% of the total voting power of stock or other equity entitled to vote generally in the election of directors or managers or equivalent persons thereof is owned or controlled, directly or indirectly, by such Person.

2. [Registration Rights](#). The Company covenants and agrees as follows:

2.1 [Demand Registration](#).

(a) [Form S-1 Demand](#). If at any time after one hundred eighty (180) days after the date of the final prospectus for the IPO, the Company receives a request from

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Holders of at least forty percent (40%) of the Registrable Securities then outstanding (or a lesser percentage if the reasonably anticipated aggregate offering amount to the public, net of Selling Expenses, would exceed \$25 million) that the Company file a Form S-1 registration statement with respect to Registrable Securities then outstanding having an anticipated aggregate offering amount to the public, net of Selling Expenses, of not less than \$25 million, then the Company shall (x) within ten (10) days after the date such request is given, give notice thereof (the “**Demand Notice**”) to all Holders other than the Initiating Holders; and (y) as soon as practicable, and in any event within sixty (60) days after the date such request is given by the Initiating Holders, file a Form S-1 registration statement under the Securities Act covering all Registrable Securities that the Initiating Holders requested to be registered and any additional Registrable Securities requested to be included in such registration by any other Holders, as specified by notice given by each such Holder to the Company within twenty (20) days of the date the Demand Notice is given, and in each case, subject to the limitations of Sections 2.1(c) and 2.3.

(b) Form S-3 Demand. If at any time when it is eligible to use a Form S-3 registration statement, the Company receives a request from Holders of at least ten percent (10%) of the Registrable Securities then outstanding (or a lesser percentage if the reasonably anticipated aggregate offering amount to the public, net of Selling Expenses, would exceed \$5 million) that the Company file a Form S-3 registration statement with respect to outstanding Registrable Securities of such Holders having an anticipated aggregate offering amount, net of Selling Expenses, of at least \$5 million, then the Company shall (i) within ten (10) days after the date such request is given, give a Demand Notice to all Holders other than the Initiating Holders; and (ii) as soon as practicable, and in any event within forty-five (45) days after the date such request is given by the Initiating Holders, file a Form S-3 registration statement under the Securities Act covering all Registrable Securities requested to be included in such registration by any other Holders, as specified by notice given by each such Holder to the Company within twenty (20) days of the date the Demand Notice is given, and in each case, subject to the limitations of Sections 2.1(c) and 2.3.

(c) Notwithstanding the foregoing obligations, if the Company furnishes to Holders requesting a registration pursuant to this Section 2.1 a certificate signed by the Company’s chief executive officer stating that in the good faith judgment of the Company’s Board of Directors it would be materially detrimental to the Company and its stockholders for such registration statement to either become effective or remain effective for as long as such registration statement otherwise would be required to remain effective, because such action would (i) materially interfere with a significant acquisition, corporate reorganization, or other similar transaction involving the Company; (ii) require premature disclosure of material information that the Company has a bona fide business purpose for preserving as confidential; or (iii) render the Company unable to comply with requirements under the Securities Act or Exchange Act, then the Company shall have the right to defer taking action with respect to such filing, and any time periods with respect to filing or effectiveness thereof shall be tolled correspondingly, for a period of not more than ninety (90) days after the request of the Initiating Holders is given; provided, however, that the Company may not invoke this right more than once in any twelve (12) month period; and provided further that the Company shall not register any securities for its own account or that of any other stockholder during such ninety (90) day period other than an Excluded Registration.



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(d) The Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to [Subsection 2.1\(a\)](#) (i) during the period that is sixty (60) days before the Company's good faith estimate of the date of filing of, and ending on a date that is (A) one hundred eighty (180) days after the effective date of, a Company-initiated registration for the IPO or (B) ninety (90) days after the effective date of a Company-initiated registration that is not for the IPO, provided that the Company is actively employing in good faith commercially reasonable efforts to cause such registration statement to become effective; (ii) after the Company has effected three (3) registrations pursuant to [Subsection 2.1\(a\)](#); or (iii) if the Initiating Holders propose to dispose of shares of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made pursuant to [Subsection 2.1\(b\)](#) and the content of such form is reasonably sufficient for purposes of the intended distribution. The Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to [Subsection 2.1\(b\)](#) (i) during the period that is thirty (30) days before the Company's good faith estimate of the date of filing of, and ending on a date that is ninety (90) days after the effective date of, a Company-initiated registration in respect of which [Subsection 2.2](#) applied, provided that the Company is actively employing in good faith commercially reasonable efforts to cause such registration statement to become effective; or (ii) if the Company has effected two registrations pursuant to [Subsection 2.1\(b\)](#) within the twelve (12) month period immediately preceding the date of such request. A registration shall not be counted as "effected" for purposes of this [Subsection 2.1\(d\)](#) until such time as the applicable registration statement has been declared effective by the SEC, unless the Initiating Holders withdraw their request for such registration, elect not to pay the registration expenses therefor, and forfeit their right to one demand registration statement pursuant to [Subsection 2.6](#), in which case such withdrawn registration statement shall be counted as "effected" for purposes of this [Subsection 2.1\(d\)](#).

**2.2 Company Registration.** If the Company proposes to register (including, for this purpose, a registration effected by the Company for stockholders other than the Holders) any of its Common Shares under the Securities Act in connection with the public offering of such securities solely for cash (other than in an Excluded Registration), the Company shall, at such time, promptly give each Holder notice of such registration. Upon the request of each Holder given within twenty (20) days after such notice is given by the Company, the Company shall, subject to the provisions of [Subsection 2.3](#), cause to be registered all of the Registrable Securities that each such Holder has requested to be included in such registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this [Subsection 2.2](#) before the effective date of such registration, whether or not any Holder has elected to include Registrable Securities in such registration. The expenses (other than Selling Expenses) of such withdrawn registration shall be borne by the Company in accordance with [Subsection 2.6](#).

**2.3 Underwriting Requirements.**

(a) If, pursuant to [Subsection 2.1](#), the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they

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shall so advise the Company as a part of their request made pursuant to [Subsection 2.1](#), and the Company shall include such information in the Demand Notice. The underwriter(s) will be selected by a majority in interest of the Initiating Holders and shall be reasonably acceptable to the Company. In such event, the right of any Holder to include such Holder's Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in [Subsection 2.4\(e\)](#)) enter into an underwriting agreement in customary form with the underwriter(s) selected for such underwriting. Notwithstanding any other provision of this [Subsection 2.3](#), if the managing underwriter(s) advise(s) the Initiating Holders in writing that marketing factors require a limitation on the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders of Registrable Securities that otherwise would be underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be allocated among such Holders of Registrable Securities, including the Initiating Holders, in proportion (as nearly as practicable) to the number of Registrable Securities owned by each Holder or in such other proportion as shall mutually be agreed to by all such selling Holders; provided, however, that the number of Registrable Securities held by the Holders to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest one hundred (100) shares.

(b) In connection with any offering involving an underwriting of shares of the Company's capital stock pursuant to [Subsection 2.2](#), the Company shall not be required to include any of the Holders' Registrable Securities in such underwriting unless the Holders accept the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriters in their sole discretion determine will not jeopardize the success of the offering by the Company. If the total number of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the number of securities to be sold (other than by the Company) that the underwriters in their reasonable discretion determine is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters and the Company in their sole discretion determine will not jeopardize the success of the offering. If the underwriters determine that less than all of the Registrable Securities requested to be registered can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated among the selling Holders in proportion (as nearly as practicable to) the number of Registrable Securities owned by each selling Holder or in such other proportions as shall mutually be agreed to by all such selling Holders. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest one hundred (100) shares. Notwithstanding the foregoing, in no event shall (i) the number of Registrable Securities included in the offering be reduced unless all other securities (other than securities to be sold by the Company) are first entirely excluded from the offering, or (ii) the number of Registrable Securities included in the offering be reduced below twenty percent (20%) of the total number of securities included in such offering. For purposes of

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the provision in this Subsection 2.3(b) concerning apportionment, for any selling Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, stockholders, and Affiliates of such Holder, or the estates and Immediate Family Members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing Persons, shall be deemed to be a single “selling Holder,” and any pro rata reduction with respect to such “selling Holder” shall be based upon the aggregate number of Registrable Securities owned by all Persons included in such “selling Holder,” as defined in this sentence.

(c) For purposes of Subsection 2.1, a registration shall not be counted as “effected” if, as a result of an exercise of the underwriter’s cutback provisions in Subsection 2.3(a), fewer than fifty percent (50%) of the total number of Registrable Securities that Holders have requested to be included in such registration statement are actually included.

2.4 Obligations of the Company. Whenever required under this Section 2 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or, if earlier, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such one hundred twenty (120) day period shall be extended for a period of time equal to the period the Holder refrains, at the request of an underwriter of Common Shares (or other securities) of the Company, from selling any securities included in such registration, and (ii) in the case of any registration of Registrable Securities on Form S-3 that are intended to be offered on a continuous or delayed basis, subject to compliance with applicable SEC rules, such one hundred twenty (120) day period shall be extended, if necessary, to keep the registration statement effective until the earlier of (A) all such Registrable Securities are sold or (B) once all Registrable Securities held by Brightstar that are registered on such registration statement have been sold, all such Registrable Securities may be sold freely without limitations or restrictions as to volume or manner of sale pursuant to Rule 144, provided that the Company shall not be obligated to keep such registration statement effective during the period provided in Subsection 2.1(d)(i) or (ii);

(b) prepare and file with the SEC such amendments and supplements to such registration statement, and the prospectus used in connection with such registration statement, as may be necessary to comply with the Securities Act in order to enable the disposition of all securities covered by such registration statement;

(c) furnish to the selling Holders such number of copies of a prospectus, including a preliminary prospectus, as required by the Securities Act, and such other documents as the selling Holders may reasonably request in order to facilitate their disposition of their Registrable Securities;

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(d) use its commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or blue-sky laws of such jurisdictions as shall be reasonably requested by the selling Holders; provided that the Company shall not be required to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(e) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the underwriter(s) of such offering, and cause to be furnished, at the request of the selling Holders, on the date that Registrable Securities are delivered to underwriters for sale in connection with an underwritten offering pursuant to this Agreement, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters by such counsel, and (ii) a letter or letters from the independent certified public accountants of the Company, in form and substance as is customarily given by the Company's independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters;

(f) use its commercially reasonable efforts to cause all such Registrable Securities covered by such registration statement to be listed on a national securities exchange or trading system and each securities exchange and trading system (if any) on which similar securities issued by the Company are then listed;

(g) provide a transfer agent, registrar and, if applicable, custodian for all Registrable Securities registered pursuant to this Agreement and provide a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(h) promptly make available for inspection by the selling Holders, any managing underwriter(s) participating in any disposition pursuant to such registration statement, and any attorney or accountant or other agent retained by any such underwriter or selected by the selling Holders, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company's officers, directors, employees, and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant, or agent, in each case, as necessary or advisable to verify the accuracy of the information in such registration statement and to conduct appropriate due diligence in connection therewith;

(i) notify each selling Holder, promptly after the Company receives notice thereof, of the time when such registration statement has been declared effective or a supplement to any prospectus forming a part of such registration statement has been filed; and

(j) after such registration statement becomes effective, notify each selling Holder of any request by the SEC that the Company amend or supplement such registration statement or prospectus.

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In addition, the Company shall ensure that, at all times after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, its insider trading policy shall provide that the Company's directors may implement a trading program under Rule 10b5-1 of the Exchange Act.

2.5 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 2 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as is reasonably required to effect the registration of such Holder's Registrable Securities.

2.6 Expenses of Registration. All expenses (other than Selling Expenses) incurred in connection with registrations, filings, or qualifications pursuant to Section 2, including all registration, filing, and qualification fees; printers' and accounting fees; fees and disbursements of counsel for the Company; and the reasonable fees and disbursements of one counsel for the selling Holders designated by the selling Holder which holds the greatest number of Registrable Securities included in such registration ("Selling Holder Counsel"), shall be borne and paid by the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Subsection 2.1 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all selling Holders shall bear such expenses pro rata based upon the number of Registrable Securities that were to be included in the withdrawn registration), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one registration pursuant to Subsections 2.1(a) or 2.1(b), as the case may be; provided further that if, at the time of such withdrawal, the Holders shall have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness after learning of such information then the Holders shall not be required to pay any of such expenses and shall not forfeit their right to one registration pursuant to Subsection 2.1(a) or Subsection 2.1(b). All Selling Expenses relating to Registrable Securities registered pursuant to this Section 2 shall be borne and paid by the Holders pro rata on the basis of the number of Registrable Securities registered on their behalf.

2.7 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any registration pursuant to this Agreement as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.8 Indemnification. If any Registrable Securities are included in a registration statement under this Section 2:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each selling Holder, and the partners, members, officers, directors, and stockholders of each such Holder; legal counsel and accountants for each such Holder; any underwriter (as defined in the Securities Act) for each such Holder; and each Person, if any, who

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controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any Damages, and the Company will pay to each such Holder, underwriter, controlling Person, or other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Subsection 2.8(a) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable for any Damages to the extent that they arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of any such Holder, underwriter, controlling Person, or other aforementioned Person expressly for use in connection with such registration.

(b) To the extent permitted by law, each selling Holder, severally and not jointly, will indemnify and hold harmless the Company, and each of its directors, each of its officers who has signed the registration statement, each Person (if any), who controls the Company within the meaning of the Securities Act, legal counsel and accountants for the Company, any underwriter (as defined in the Securities Act), any other Holder selling securities in such registration statement, and any controlling Person of any such underwriter or other Holder, against any Damages, in each case only to the extent that such Damages arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of such selling Holder expressly for use in connection with such registration; and each such selling Holder will pay to the Company and each other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Subsection 2.8(b) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided further that in no event shall the aggregate amounts payable by any Holder by way of indemnity or contribution under Subsections 2.8(b) and 2.8(d) exceed the net proceeds from the offering received by such Holder (net of any Selling Expenses paid by such Holder).

(c) Promptly after receipt by an indemnified party under this Subsection 2.8 of notice of the commencement of any action (including any governmental action) for which a party may be entitled to indemnification hereunder, such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Subsection 2.8, give the indemnifying party notice of the commencement thereof. The indemnifying party shall have the right to participate in such action and, to the extent the indemnifying party so desires, participate jointly with any other indemnifying party to which notice has been given, and to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified

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party and any other party represented by such counsel in such action. The failure to give notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of any liability to the indemnified party under this [Subsection 2.8](#), to the extent that such failure materially prejudices the indemnifying party's ability to defend such action. The failure to give notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this [Subsection 2.8](#).

(d) To provide for just and equitable contribution to joint liability under the Securities Act in any case in which either: (i) any party otherwise entitled to indemnification hereunder makes a claim for indemnification pursuant to this [Subsection 2.8](#) but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case, notwithstanding the fact that this [Subsection 2.8](#) provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any party hereto for which indemnification is provided under this [Subsection 2.8](#), then, and in each such case, such parties will contribute to the aggregate losses, claims, damages, liabilities, or expenses to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of each of the indemnifying party and the indemnified party in connection with the statements, omissions, or other actions that resulted in such loss, claim, damage, liability, or expense, as well as to reflect any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or allegedly untrue statement of a material fact, or the omission or alleged omission of a material fact, relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case (x) no Holder will be required to contribute any amount in excess of the proceeds from the offering received by such Holder (net of any Selling Expenses paid by such Holder) pursuant to such registration statement, and (y) no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation; and provided further that in no event shall a Holder's liability pursuant to this [Subsection 2.8\(d\)](#), when combined with the amounts paid or payable by such Holder pursuant to [Subsection 2.8\(b\)](#), exceed the proceeds from the offering received by such Holder (net of any Selling Expenses paid by such Holder), except in the case of willful misconduct or fraud by such Holder.

(e) The obligations of the Company and Holders under this [Subsection 2.8](#) shall survive the completion of any offering of Registrable Securities in a registration under this [Section 2](#), and otherwise shall survive the termination of this Agreement.

[2.9 Reports Under Exchange Act](#). With a view to making available to the Holders the benefits of SEC Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company shall:

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(a) make and keep available adequate current public information, as those terms are understood and defined in SEC Rule 144, at all times after the effective date of the registration statement filed by the Company for the IPO;

(b) use commercially reasonable efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after the Company has become subject to such reporting requirements); and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) to the extent accurate, a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the registration statement filed by the Company for the IPO), the Securities Act, and the Exchange Act (at any time after the Company has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after the Company so qualifies); (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company; and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration (at any time after the Company has become subject to the reporting requirements under the Exchange Act) or pursuant to Form S-3 (at any time after the Company so qualifies to use such form).

2.10 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company that (i) would provide to such holder the right to include securities in any registration on other than either a pro rata basis with respect to the Registrable Securities or on a subordinate basis after all Holders have had the opportunity to include in the registration and offering all shares of Registrable Securities that they wish to so include; or (ii) allow such holder or prospective holder to initiate a demand for registration of any securities held by such holder or prospective holder.

2.11 "Market Stand-off" Agreement. Each Holder hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the date of the final prospectus relating to the registration by the Company of its Common Shares or any other equity securities under the Securities Act on a registration statement on Form S-1 or Form S-3, and ending on the date specified by the Company and the managing underwriter (such period not to exceed one hundred eighty (180) days in the case of the IPO or ninety (90) days (or such lesser time period as the underwriters in such offering may require) in the case of any registration effected pursuant to Subsection 2.1(a), 2.1(b) or 2.2 other than the IPO), or such other period as may be required to accommodate applicable regulatory restrictions, if any, on (1) the publication or other distribution of research reports, and (2) analyst recommendations and opinions, including, but not limited to, the restrictions contained in FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto), (i) lend; offer; pledge; sell; contract to sell; sell any option or contract to purchase;



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purchase any option or contract to sell; grant any option, right, or warrant to purchase; or otherwise transfer or dispose of, directly or indirectly, any Common Shares or any securities convertible into or exercisable or exchangeable (directly or indirectly) for Common Shares then owned by the Holder immediately prior to the date of the final prospectus or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Shares or other securities, in cash, or otherwise. The foregoing provisions of this [Subsection 2.11](#) shall apply to an offering other than the IPO only if (a) such offering was effected pursuant to [Subsection 2.1](#), (b) such offering is underwritten, and (c) there has not been any such non-IPO offering to which this sentence applies in the preceding six-month period. The foregoing provisions of this [Subsection 2.11](#) shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement, or the transfer of any shares to any trust for the direct or indirect benefit of the Holder or the immediate family of the Holder or distributions or transfers of any shares to partners, members, stockholders, Affiliates or custodians of the Holder, provided that the trustee of the trust or the partner, member, stockholder or Affiliate, as the case may be, agrees to be bound in writing by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value; and shall be applicable to the Holders only if all officers and directors are subject to the same restrictions and the Company obtains a similar agreement from all stockholders individually owning more than one percent (1%) of the Company's outstanding Common Shares. The underwriters in connection with such registration are intended third-party beneficiaries of this [Subsection 2.11](#) and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Holder further agrees to execute such agreements as may be reasonably requested by the underwriters in connection with such registration that are consistent with this [Subsection 2.11](#) or that are necessary to give further effect thereto. Any discretionary waiver or termination of the restrictions of any or all of such agreements by the Company or the underwriters shall apply pro rata to all Holders subject to such agreements, based on the number of shares subject to such agreements.

**2.12 [Restrictions on Transfer.](#)**

(a) The Registrable Securities shall not be sold, pledged, or otherwise transferred, and the Company shall not recognize and shall issue stop-transfer instructions to its transfer agent with respect to any such sale, pledge, or transfer, except upon the conditions specified in this Agreement, which conditions are intended solely to ensure compliance with the provisions of the Securities Act.

(b) Each certificate, instrument, or book entry representing (i) the Registrable Securities, and (ii) any other securities issued in respect of the securities referenced in clause (i), upon any stock split, stock dividend, recapitalization, merger, consolidation, or similar event, shall (unless otherwise permitted by the provisions of [Subsection 2.12\(c\)](#)) be notated with a legend substantially in the following form:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. SUCH SHARES MAY NOT BE SOLD,

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PLEGGED, OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR A VALID EXEMPTION FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

The Holders consent to the Company making a notation in its records and giving instructions to any transfer agent of the Restricted Securities in order to implement the restrictions on transfer set forth in this [Subsection 2.12](#).

(c) The holder of such Restricted Securities, by acceptance of ownership thereof, agrees to comply in all respects with the provisions of this [Section 2](#). Before any proposed sale, pledge, or transfer of any Restricted Securities, unless there is in effect a registration statement under the Securities Act covering the proposed transaction, the Holder thereof shall give notice to the Company of such Holder's intention to effect such sale, pledge, or transfer. Each such notice shall describe the manner and circumstances of the proposed sale, pledge, or transfer in sufficient detail and, if reasonably requested by the Company, shall be accompanied at such Holder's expense by either (i) a written opinion of legal counsel who shall, and whose legal opinion shall, be reasonably satisfactory to the Company, addressed to the Company, to the effect that the proposed transaction may be effected without registration under the Securities Act; (ii) a "no action" letter from the SEC to the effect that the proposed sale, pledge, or transfer of such Restricted Securities without registration will not result in a recommendation by the staff of the SEC that action be taken with respect thereto; or (iii) any other evidence reasonably satisfactory to counsel to the Company to the effect that the proposed sale, pledge, or transfer of the Restricted Securities may be effected without registration under the Securities Act, whereupon the Holder of such Restricted Securities shall be entitled to sell, pledge, or transfer such Restricted Securities in accordance with the terms of the notice given by the Holder to the Company. The Company will not require such a legal opinion or "no action" letter (x) in any transaction in compliance with SEC Rule 144; (y) in any transaction in which such Holder distributes Restricted Securities to an Affiliate of such Holder for no consideration; or (z) with respect to any customary arrangement in connection with the deposit of Registrable Securities in a non-margin custodial account so long as such Registrable Securities are in certificated form (it being understood that the Company may require the exchange of any such certificated securities for book-entry shares upon the IPO); provided that each transferee agrees in writing to be subject to the terms of this [Subsection 2.12](#). Each certificate, instrument, or book entry representing the Restricted Securities transferred as above provided shall be notated with, except if such transfer is made pursuant to SEC Rule 144 or pursuant to an effective registration statement, the appropriate restrictive legend set forth in [Subsection 2.12\(b\)](#), except that such certificate instrument, or book entry shall not be notated with such restrictive legend if, in the opinion of counsel for such Holder and the Company, such legend is not required in order to establish compliance with any provisions of the Securities Act.

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2.13 Termination of Registration Rights. The right of any Holder to request registration or inclusion of Registrable Securities in any registration pursuant to Subsections 2.1 or 2.2 shall terminate upon the earliest to occur of:

(a) such time as Rule 144 or another similar exemption under the Securities Act is available for the sale of all of such Holder's shares without limitation during a three-month period without registration; provided, however, that in the case of a Principal Investor, the termination pursuant to this Subsection 2.13(a) of such Principal Investor's right to request registration or inclusion of Registrable Securities in any such registration pursuant to Subsections 2.1 or 2.2 shall not occur until such Principal Investor first holds of record less than one percent (1%) of the outstanding capital stock of the Company; and

(b) in the case of all Holders other than the Principal Investors, the third anniversary of the IPO.

### 3. Miscellaneous.

3.1 Confidentiality. Each Investor agrees that such Investor will keep confidential and will not disclose, divulge, or use for any purpose (other than to monitor its investment in the Company) any confidential information obtained from the Company pursuant to the terms of this Agreement (including any notice of the Company's intention to file a registration statement), unless such confidential information (a) is known or becomes known to the public in general (other than as a result of a breach of this Subsection 3.1 by such Investor), (b) is or has been independently developed or conceived by the Investor without use of the Company's confidential information, or (c) is or has been made known or disclosed to the Investor by a third party without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that an Investor may disclose confidential information (i) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company; (ii) to any prospective purchaser of any Common Shares from such Investor, if such prospective purchaser agrees to be bound by the provisions of this Subsection 3.1; (iii) to any existing Affiliate, partner, member, stockholder, current or prospective investor or wholly owned subsidiary of such Investor in the ordinary course of business, provided that such Investor informs such Person that such information is confidential and directs such Person to maintain the confidentiality of such information; or (iv) as may otherwise be required by law or at the request of any governmental or regulatory authority, provided that, if legally permitted, the Investor promptly notifies the Company of such disclosure and takes reasonable steps to minimize the extent of any such required disclosure. In the case of (i), (ii), and (iii) in the preceding sentence, such Investor designating such representative shall be liable to the Company for any use or disclosure of the confidential information in violation of the terms of this Agreement by its designee.

3.2 Successors and Assigns. The rights under this Agreement may be assigned (but only with all related obligations) by an Investor to a transferee of its Common Shares that (i) is an Affiliate of a Holder; (ii) is a Holder's Immediate Family Member or trust for the benefit of an individual Holder or one or more of such Holder's Immediate Family

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Members; or (iii) after such transfer, holds at least 480,250 Common Shares (subject to appropriate adjustment for share splits, share dividends, combinations, and other recapitalizations); provided, however, that (y) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee and the Common Shares with respect to which such rights are being transferred; and (z) such transferee agrees in a written instrument delivered to the Company to be bound by and subject to the terms and conditions of this Agreement, including the provisions of Subsection 2.11. For the purposes of determining the number of Common Shares held by a transferee, the holdings of a transferee (1) that is an Affiliate or stockholder of a Holder; (2) who is a Holder's Immediate Family Member; or (3) that is a trust for the benefit of an individual Holder or such Holder's Immediate Family Member shall be aggregated together and with those of the transferring Holder; provided further that all transferees who would not qualify individually for assignment of rights shall have a single attorney-in-fact for the purpose of exercising any rights, receiving notices, or taking any action under this Agreement. The terms and conditions of this Agreement inure to the benefit of and are binding upon the respective successors and permitted assignees of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and permitted assignees any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

3.3 Successor Indemnification. If the Company or any of its successors or assignees consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger, then to the extent necessary, proper provision shall be made so that the successors and assignees of the Company assume the obligations of the Company with respect to indemnification of members of the Board of Directors as in effect immediately before such transaction, whether such obligations are contained in this Agreement, the Company's Bylaws, its Certificate of Incorporation, or elsewhere, as the case may be.

3.4 Governing Law. This Agreement shall be governed by the internal law of the State of Delaware.

3.5 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal E-SIGN Act of 2000, e.g., www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

3.6 Titles and Subtitles. The titles and subtitles used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement.

3.7 Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given upon the earlier of actual receipt or (i) personal delivery to the party to be notified; (ii) when sent, if sent by electronic mail or facsimile during the recipient's normal business hours, and if not sent during normal business hours, then on the recipient's next business day; (iii) five (5) days after having

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been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one (1) business day after the business day of deposit with a nationally recognized overnight courier, freight prepaid, specifying next-day delivery, with written verification of receipt. All communications shall be sent to the respective parties at their addresses as set forth on Schedule A hereto, or to the principal office of the Company and to the attention of the Chief Executive Officer, in the case of the Company, or to such email address, facsimile number, or address as subsequently modified by written notice given in accordance with this Subsection 3.7. If notice is given to the Company, a copy shall also be sent to Goodwin Procter, LLP, 100 Northern Ave., Boston, Massachusetts 02210, Attention: Richard Hoffman, and if notice is given to the Investors, a copy shall also be given to the respective parties as set forth on Schedule A hereto.

3.8 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance, and either retroactively or prospectively) only with the written consent of the Company and the holders of a majority of Registrable Securities then outstanding; provided that (a) the Company may in its sole discretion waive compliance with Subsection 2.12(c) (and the Company's failure to object promptly in writing after notification of a proposed assignment allegedly in violation of Subsection 2.12(c) shall be deemed to be a waiver); (b) any provision hereof may be waived by any waiving party on such party's own behalf, without the consent of any other party, and (c) any amendment or waiver of Sections 1.14, 1.22, 2.11, 2.13 and this clause (c) shall require the consent of any Principal Investor that holds at least 1% of the Common Shares. The Company shall give prompt written notice of any amendment or termination hereof or waiver hereunder to any party hereto that did not consent in writing to such amendment, termination, or waiver. Any amendment, termination, or waiver effected in accordance with this Subsection 3.8 shall be binding on all parties hereto, regardless of whether any such party has consented thereto. No waivers of or exceptions to any term, condition, or provision of this Agreement, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such term, condition, or provision.

3.9 Severability. In case any one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and such invalid, illegal, or unenforceable provision shall be reformed and construed so that it will be valid, legal, and enforceable to the maximum extent permitted by law.

3.10 Aggregation of Shares. All Common Shares held or acquired by Affiliates shall be aggregated together for the purpose of determining the availability of any rights under this Agreement and such Affiliated Persons may apportion such rights as among themselves in any manner they deem appropriate.

3.11 Entire Agreement. This Agreement (including any Schedules hereto) constitutes the full and entire understanding and agreement among the parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing between the parties is expressly canceled. Upon the effectiveness of this Agreement, the Investor Rights Agreement shall be deemed terminated and superseded and replaced in its entirety by this Agreement, and shall be of no further force or effect.

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3.12 Dispute Resolution. The parties (a) hereby irrevocably and unconditionally submit to the jurisdiction of the Court of Chancery in the State of Delaware and to the jurisdiction of the United States District Court for the District of Delaware for the purpose of any suit, action or other proceeding arising out of or based upon this Agreement, (b) agree not to commence any suit, action or other proceeding arising out of or based upon this Agreement except in the Court of Chancery in the State of Delaware or the United States District Court for the District of Delaware, and (c) hereby waive, and agree not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court.

WAIVER OF JURY TRIAL: EACH PARTY HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS, THE SECURITIES OR THE SUBJECT MATTER HEREOF OR THEREOF. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS (INCLUDING NEGLIGENCE), BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THIS SECTION HAS BEEN FULLY DISCUSSED BY EACH OF THE PARTIES HERETO AND THESE PROVISIONS WILL NOT BE SUBJECT TO ANY EXCEPTIONS. EACH PARTY HERETO HEREBY FURTHER WARRANTS AND REPRESENTS THAT SUCH PARTY HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

3.13 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party under this Agreement, upon any breach or default of any other party under this Agreement, shall impair any such right, power, or remedy of such nonbreaching or nondefaulting party, nor shall it be construed to be a waiver of or acquiescence to any such breach or default, or to any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. All remedies, whether under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

3.14 Acknowledgment. The Company acknowledges that the Investors are in the business of venture capital investing and therefore review the business plans and related proprietary information of many enterprises, including enterprises which may have products or services which compete directly or indirectly with those of the Company. Nothing in this

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Agreement shall preclude or in any way restrict the Investors from investing or participating in any particular enterprise whether or not such enterprise has products or services which compete with those of the Company.

[Remainder of Page Intentionally Left Blank]

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**COMPANY:**

**DECIPHERA PHARMACEUTICALS, INC.**

By: /s/ Michael D. Taylor

Name: Michael D. Taylor

Title: President and Chief Executive Officer

**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**



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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**INVESTORS:**

**NEW LEAF VENTURES III, L.P.**

By: /s/ Craig L. Slutzkin

Name: Craig L. Slutzkin

Title: Chief Financing Officer of the General Partner of the  
General Partner

**NEW LEAF BIOPHARMA  
OPPORTUNITIES I, L.P.**

By: /s/ Craig L. Slutzkin

Name: Craig L. Slutzkin

Title: Chief Financing Officer of the General Partner of the  
General Partner

**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**

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**BRIGHTSTAR ASSOCIATES LLC**

By: /s/ Mark Fallon

Name: Mark Fallon

Title: Member – Board of Managers

**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**

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**SPHERA GLOBAL HEALTHCARE  
MASTER FUND**

By: /s/ Doron Breen  
Name: Doron Breen  
Title: Director

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**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**

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**BIOCHENOMIX LLC**

**By: Biochenomix, Inc., as sole member of  
Biochenomix, L.L.C.**

By: /s/ Daniel L. Flynn  
Name: Daniel L. Flynn  
Title: Managing Member

**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**

**REDMILE CAPITAL FUND, LP**

By: /s/ Jeremy Green  
Name: Jeremy Green  
Title: Managing Member of the General Partner  
and the Investment Manager

**REDMILE CAPITAL OFFSHORE FUND, LTD.**

By: /s/ Jeremy Green  
Name: Jeremy Green  
Title: Managing Member of the Investment  
Manager

**REDMILE CAPITAL OFFSHORE FUND II, LTD.**

By: /s/ Jeremy Green  
Name: Jeremy Green  
Title: Managing Member of the Investment  
Manager

**REDMILE SPECIAL OPPORTUNITIES FUND, LTD.**

By: /s/ Jeremy Green  
Name: Jeremy Green  
Title: Managing Member of the Investment  
Manager

**REDMILE BIOPHARMA INVESTMENTS I, LTD.**

By: /s/ Jeremy Green  
Name: Jeremy Green  
Title: Managing Member of the Management  
Company / General Partner

**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**

**SV LIFE SCIENCES FUND VI, L.P.**

**By: SV Life Sciences Fund VI (GP), L.P., its sole General Partner**

**By: SVLSF VI, LLC, its sole general partner**

By: /s/ Denise W. Marks

Name: Denise W. Marks

Title: SVLSF VI, LLC, Member

**SV LIFE SCIENCES FUND VI STRATEGIC PARTNERS, L.P.**

**By: SV Life Sciences Fund VI (GP), L.P.  
Its: Sole General Partner**

**By: SVLSF VI, LLC**

**Its: Sole General Partner**

By: /s/ Denise W. Marks

Name: Denise W. Marks

Title: SVLSF VI, LLC, Member

**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**

**VIKING GLOBAL OPPORTUNITIES  
INTERMEDIATE LP**

**By: Viking Global Opportunities GP LLC, its general  
partner**

By: /s/ Matthew Bloom  
Name: Matthew Bloom  
Title: Authorized Signatory

**DRAGSA 14 LLC**

**By: Viking Global Investors LP, its non-member manager**

By: /s/ Matthew Bloom  
Name: Matthew Bloom  
Title: Authorized Signatory

**SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT**

**SCHEDULE A**

**Investors**

**New Leaf Ventures III, L.P.**

**New Leaf Biopharma Opportunities I, L.P.**

New Leaf Venture Partners  
Times Square Tower  
7 Times Square, Suite 3502  
New York, NY 10036  
Phone: (646) 871-6400  
Fax: (646) 871-6450  
*This entity does not accept  
legal notices via e-mail.*

**Brightstar Associates LLC**

300 West 11th Street  
Kansas City, MO 64105  
Attn: Gary Muller

**Biochenomix LLC**

643 Massachusetts, Suite 200  
Lawrence, KS 66044  
Attn: Dan Flynn

**SV Life Sciences Fund VI, LP**

**SV Life Sciences Fund VI Strategic Partners, LP**

c/o SV Life Sciences  
One Boston Place  
201 Washington St., Suite 3900  
Boston, MA 02108  
Attn: Denise Marks

**DRAGSA 14 LLC**

**Viking Global Opportunities Intermediate LP**

c/o Viking Global Investors LP  
55 Railroad Avenue  
Greenwich, CT 06830

**Redmile Capital Fund, LP**

**Redmile Capital Offshore Fund, Ltd.**

**Redmile Capital Offshore Fund II, Ltd.**

**Redmile Special Opportunities Fund, Ltd.**

**Redmile Biopharma Investments I, L.P.**

One Letterman Drive, Suite D3-300  
San Francisco, CA 94129



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**Sphera Global Healthcare Master Fund**

400 Madison Avenue, 9th Floor  
New York, New York 10017

**CERTIFICATIONS**

I, Michael D. Taylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Deciphera Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e):
  - 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) 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
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

By: /s/ Michael D. Taylor  
Michael D. Taylor  
President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATIONS

I, Thomas P. Kelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Deciphera Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e):
  - 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) 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
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

By: /s/ Thomas P. Kelly  
Thomas P. Kelly  
Chief Financial Officer  
(Principal Financial and Accounting 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 Deciphera Pharmaceuticals, Inc. (the "Company") for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Michael D. Taylor, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his 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 results of operations of the Company.

Date: November 14, 2017

By: /s/ Michael D. Taylor  
Michael D. Taylor  
President and Chief Executive Officer  
(Principal Executive 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 Deciphera Pharmaceuticals, Inc. (the "Company") for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas P. Kelly, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his 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 results of operations of the Company.

Date: November 14, 2017

By: /s/ Thomas P. Kelly  
Thomas P. Kelly  
Chief Financial Officer  
(Principal Financial and Accounting Officer)