

SEATTLE GENETICS INC /WA
Form DEF 14A
June 09, 2003

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Under Rule 14a-12

SEATTLE GENETICS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3)

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Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

To Our Stockholders:

You are cordially invited to attend the Special Meeting of Stockholders of Seattle Genetics, Inc., to be held on July 2, 2003. Enclosed are the notice of this special meeting, a proxy statement and a proxy card. Please note that the meeting will be held at 10:00 a.m. local time at our principal offices located at 21823 - 30th Drive SE, Bothell, WA 98021.

The Special Meeting is being held for the following purposes as described in the enclosed proxy statement:

To consider and vote upon a proposal to:

approve a private placement of \$41 million of our Series A convertible preferred stock and warrants to purchase 2,050,000 shares of our common stock pursuant to a Securities Purchase Agreement dated May 12, 2003, as amended by Amendments Nos. 1 and 2, to entities affiliated with J.P. Morgan Partners, Baker Brothers Investments, Delphi Ventures, BA Venture Partners and T. Rowe Price Health Sciences Fund, Inc.;

authorize the issuance of 16,400,000 shares of our common stock upon conversion of the Series A convertible preferred stock; and

authorize the issuance of 2,050,000 shares of our common stock upon exercise of the warrants.

To transact such other business as may properly come before the Special Meeting and any adjournment or postponement thereof.

As described in the enclosed materials, our Board of Directors has approved the matters included in this proposal and believes that the matters included therein are fair to, and in the best interests of, us and our stockholders. The Board of Directors recommends a vote for the proposal.

It is important that your shares be represented at the Special Meeting, so please complete and return the enclosed proxy card as soon as possible.

Sincerely,

Clay B. Siegall, Ph.D

President and Chief Executive Officer

21823 - 30th Drive S.E.

Bothell, Washington 98021

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held July 2, 2003

TO OUR STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders (the Special Meeting) of Seattle Genetics, Inc. (we , us , our or Seattle Genetics), a Delaware corporation, will be held on July 2, 2003 at 10:00 a.m. local time at our principal offices at 21823 - 30th Drive SE, Bothell, WA 98021, for the following purposes:

To consider and vote upon a proposal to:

approve a private placement of \$41 million of our Series A convertible preferred stock and warrants to purchase 2,050,000 shares of our common stock pursuant to a Securities Purchase Agreement dated May 12, 2003, as amended by Amendments Nos. 1 and 2, to entities affiliated with J.P. Morgan Partners, Baker Brothers Investments, Delphi Ventures, BA Venture Partners and T. Rowe Price Health Sciences Fund, Inc.;

authorize the issuance of 16,400,000 shares of our common stock upon conversion of the Series A convertible preferred stock; and

authorize the issuance of 2,050,000 shares of our common stock upon exercise of the warrants.

To transact such other business as may properly come before the Special Meeting and any adjournment or postponement thereof.

You can find more information about the foregoing items of business in the attached proxy statement.

The Board of Directors has fixed the close of business on May 27, 2003 as the record date for determining the stockholders entitled to notice of and to vote at the Special Meeting and at any adjournment or postponement thereof.

We cordially invite all stockholders to attend the Special Meeting in person. However, whether or not you expect to attend the Special Meeting in person, please vote by Internet, by telephone or by marking, dating, signing and returning the enclosed proxy card as promptly as possible in

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the postage-prepaid envelope provided to ensure your representation and the presence of a quorum at the Special Meeting. If you vote by Internet, by telephone or by sending in your proxy card, but then decide to attend the Special Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the proxy statement.

Sincerely,

Eric L. Dobmeier

Secretary

Bothell, Washington

June 9, 2003

YOUR VOTE IS IMPORTANT

There are three ways to vote: By Internet, by telephone or by marking, dating and signing the enclosed proxy card and mailing it promptly in the enclosed return envelope.

SEATTLE GENETICS, INC.

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

Our Board of Directors is soliciting proxies for a Special Meeting of Stockholders. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

The Board has set May 27, 2003 as the record date for the Special Meeting. Stockholders of record who owned our common stock on that date are entitled to vote at and attend the Special Meeting, with each share entitled to one vote. There were 30,792,875 shares of common stock outstanding on the record date.

Voting materials, which include this proxy statement and a proxy card, were mailed to stockholders on or about June 9, 2003.

In this proxy statement:

We, us, our and Seattle Genetics refer to Seattle Genetics, Inc.

Special Meeting means our July 2, 2003 Special Meeting of Stockholders.

Transaction and private placement mean our proposed private placement of Series A convertible preferred stock and warrants to purchase shares of our common stock.

Proposal means the proposal presented for approval at the Special Meeting to approve the private placement.

Board of Directors or Board means our Board of Directors.

SEC means the Securities and Exchange Commission.

We have summarized below important information with respect to the Special Meeting.

TIME AND PLACE OF THE SPECIAL MEETING

The Special Meeting is being held on July 2, 2003 at 10:00 a.m. local time at our principal offices located at 21823 - 30th Drive S.E., Bothell, Washington 98021.

All stockholders who owned shares of our common stock as of May 27, 2003, the record date, may attend and vote on the proposals considered at the Special Meeting.

PURPOSE OF THE PROXY STATEMENT AND PROXY CARD

You are receiving this proxy statement and proxy card from us because you owned shares of our common stock on May 27, 2003, the record date. This proxy statement describes a proposal on which we would like you, as a stockholder, to vote. It also gives you information on this proposal so that you can make an informed decision.

When you sign the proxy card, you appoint Clay B. Siegall and H. Perry Fell as your representatives at the Special Meeting. Clay B. Siegall and H. Perry Fell will vote your shares, as you have instructed them on the proxy card, at the Special Meeting. This way, your shares will be voted whether or not you attend the Special Meeting. Even if you plan to attend the Special Meeting it is a good idea to complete, sign and return your proxy card in advance of the Special Meeting in the event your plans change.

VOTING PROCEDURE

You may vote by mail.

To vote by mail, please sign your proxy card and return it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

You may vote in person at the Special Meeting.

We will pass out written ballots to anyone who wants to vote at the Special Meeting. If you hold your shares in street name, you must request a legal proxy from your stockbroker in order to vote at the Special Meeting. Holding shares in street name means your shares of stock are held in an account by your stockbroker, bank, or other nominee, and the stock certificates and record ownership are not in your name. If your shares are held in street name and you wish to attend the Special Meeting, you must notify your broker, bank or other nominee and obtain the proper documentation to vote your shares at the Special Meeting.

You may vote by telephone or electronically via the Internet.

To submit your proxy by telephone or via the Internet, follow the instructions on the proxy card.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use, by delivering to Seattle Genetics, at our principal offices located at 21823 30th Drive SE, Bothell, WA 98021 (Attention: Eric Dobmeier, Secretary and General Counsel), a written notice of revocation or a duly executed proxy card bearing a later date, or by attending the Special Meeting and voting in person.

MULTIPLE PROXY CARDS

If you received more than one proxy card, it means that you hold shares in more than one account. Please sign and return all proxy cards to ensure that all your shares are voted.

QUORUM REQUIREMENT

Shares are counted as present at the Special Meeting if the stockholder either:

is present and votes in person at the Special Meeting, or

has properly submitted a proxy card.

A majority of our outstanding shares as of the record date must be present at the Special Meeting (either in person or by proxy) in order to hold the Special Meeting and conduct business. This is called a quorum.

CONSEQUENCES OF NOT RETURNING YOUR PROXY; BROKER NON-VOTES

If your shares are held in your name, you must return your proxy (or attend the Special Meeting in person) in order to vote on the proposal. Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, brokers may vote such shares on behalf of their clients with respect to routine matters (such as the election of directors or the ratification of auditors), but not with respect to non-routine matters (such as a proposal submitted by a stockholder or the proposal to approve the private placement being presented at the Special Meeting). Because the proposal to be voted on at the Special Meeting is a non-routine matter, your broker may turn in a proxy card for uninstructed shares but the proxy card must expressly state that the broker is not voting on the proposal presented at the Special Meeting. This is called a broker non-vote .

Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be counted for the purpose of determining the number of votes cast.

We encourage you to provide instructions to your brokerage firm by voting your proxy. This ensures that your shares will be voted at the Special Meeting.

EFFECT OF ABSTENTIONS

Abstentions are counted as shares that are present and entitled to vote for the purposes of determining the presence of a quorum and as votes AGAINST for purposes of determining the approval of any matter submitted to the stockholders for a vote.

REQUIRED VOTE

The approval of the proposal presented at the Special Meeting will require the affirmative vote of a majority of the shares present in person or represented by proxy at the Special Meeting.

VOTE SOLICITATION; NO USE OF OUTSIDE SOLICITORS

Seattle Genetics is soliciting your proxy to vote your shares at the Special Meeting. In addition to this solicitation by mail, our directors, officers and other employees may contact you by telephone, via the Internet, in person or otherwise to obtain your proxy. These persons will not receive any additional compensation for assisting in the solicitation. We will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners. We will reimburse these entities and our transfer agent for their reasonable out-of-pocket expenses in forwarding proxy material. We have not retained the services of a proxy solicitor.

VOTING PROCEDURES

Votes cast by proxy or in person at the Special Meeting will be tabulated by a representative of Mellon Investor Services, our transfer agent, who will act as the Inspector of Election. The Inspector will also determine whether a quorum is present at the Special Meeting.

The shares represented by the proxy cards received, properly marked, dated, signed and not revoked, will be voted at the Special Meeting. If the proxy card specifies a choice with respect to any matter to be acted on, the shares will be voted in accordance with that specified choice. Any proxy card that is returned but not marked will be voted FOR the approval of the proposal presented at the Special Meeting. Broker non-votes will not be considered as voting with respect to any matter for which the broker does not have voting authority.

We believe that the procedures to be used by the Inspector to count the votes are consistent with Delaware General Corporate Law concerning voting of shares and determination of a quorum.

PUBLICATION OF VOTING RESULTS

We will announce preliminary voting results at the Special Meeting. We intend to publish the final results in our quarterly report on Form 10-Q for the quarter during which the Special Meeting is held, which we will file with the SEC. You can get a copy by contacting our Investor Relations Department at (425) 527-4000, by calling the SEC at (800) 732-0330 for the location of the nearest public reference room or through the EDGAR system at www.sec.gov.

PROPOSAL

APPROVAL OF THE PRIVATE PLACEMENT

INTRODUCTION

We are asking you to approve the issuance and sale, through a private placement, of \$41 million of our Series A convertible preferred stock to entities affiliated with J.P. Morgan Partners, Baker Brothers Investments, Delphi Ventures, BA Venture Partners and T. Rowe Price Health Sciences Fund, Inc., as well as the issuance of 16,400,000 shares of our common stock upon conversion of the Series A convertible preferred stock, the issuance of warrants to purchase 2,050,000 shares of our common stock and the issuance of 2,050,000 shares of our common stock upon the exercise of such warrants. The Series A convertible preferred stock will have the rights, preferences and privileges set forth in the Certificate of Designations of Series A Convertible Preferred Stock included as an exhibit to the Securities Purchase Agreement that we entered into with the Series A investors on May 12, 2003, as amended by Amendment No. 1 dated as of May 14, 2003 and Amendment No. 2 dated as of June 2, 2003, a copy of which is included as an exhibit to our Form 8-K filed with the SEC on June 5, 2003. The purchase price of the Series A convertible preferred stock will be \$25.00 per share and we will issue 1,640,000 shares of the Series A convertible preferred stock. Each share of Series A convertible preferred stock will initially be convertible into 10 shares of common stock at a fixed conversion price of \$2.50 per share, subject to adjustment for certain events, including stock subdivisions, combinations, splits, stock dividends, capital reorganizations, or capital reclassifications of our common stock.

J.P. Morgan Partners, LLC, formerly Chase Capital Partners, is a global partnership with over \$24 billion under management. It is a leading provider of private equity and has closed over 1,000 individual transactions since its inception in 1984. J.P. Morgan Partners has more than 140 investment professionals in eight offices throughout the world. J.P. Morgan Partners' primary limited partner is J.P. Morgan Chase & Co., one of the largest financial institutions in the United States.

Baker Brothers Investments is a life sciences focused investment firm. Co-founded in 1994 by Julian Baker and Felix Baker, Ph.D, Baker Brothers Investments is one of the larger private sources of capital focused on publicly traded life sciences companies.

The first paragraph of the Introduction is a brief summary of some of the principal terms of the private placement. A more detailed description is contained below in this proxy statement under the captions "Effects of the Proposed Investment on Seattle Genetics," "The Securities Purchase Agreement," "The Option Agreement," "The Investor Rights Agreement," "Terms of the Series A Convertible Preferred Stock," "Terms of the Warrant" and "Regulatory Sideletter." This summary and the more detailed descriptions below are qualified by reference to the Securities Purchase Agreement, Amendment No. 1 thereto, the Joinder Agreement, the Option Agreement, form of Investor Rights Agreement and form of Warrant attached as exhibits to our Form 8-K filed with the SEC on May 15, 2003, and the form of Certificate of Designations of Series A Convertible Preferred Stock and Amendment No. 2 to the Securities Purchase Agreement attached as exhibits to our Form 8-K filed with the SEC on June 5, 2003.

REASONS FOR THE TRANSACTION

The principal reasons for the private placement of Series A convertible preferred stock are to provide us with additional working capital for ongoing and planned clinical trials, research and development programs and general corporate purposes. We believe that obtaining additional capital will allow us to advance our pipeline of product candidates and further develop our antibody-based technologies. We believe that the best

option for us is to obtain this additional financing through the private placement.

BACKGROUND OF THE TRANSACTION

Our Board and management considered a number of financing alternatives prior to entering into the Securities Purchase Agreement for this transaction. Over the past six months, our management has met with more than ten private equity groups and several investment banks specializing in private placements. We also

evaluated other types of financing alternatives, including corporate partnering transactions and acquisitions of companies with substantial cash balances. Several of these opportunities generated potential financing proposals, which were discussed by our Board of Directors but which the Board of Directors ultimately determined were not in our stockholders' best interest.

J.P. Morgan Partners and Baker Brothers Investments began conducting due diligence on us in late 2002. Discussions continued throughout early 2003, and in early April 2003 we signed a non-binding, preliminary term sheet summarizing the principal terms and conditions of the transaction with J.P. Morgan Partners and Baker Brothers Investments. In mid-April 2003, J.P. Morgan Partners' counsel provided Seattle Genetics and our counsel with proposed definitive agreements based on the term sheet and the additional discussions between Seattle Genetics and the Series A investors. From mid-April 2003 through May 12, 2003, Seattle Genetics, J.P. Morgan Partners, Baker Brothers Investments, the other Series A investors, and their respective legal counsel, held numerous telephone conferences during which the Securities Purchase Agreement and various related documents were discussed and negotiated.

At a meeting of Seattle Genetics' Board of Directors held on May 8, 2003, the Board of Directors voted unanimously to enter into the Securities Purchase Agreement, subject to our receipt from CIBC World Markets Corp. (CIBC World Markets) of an opinion as to the fairness of the Series A financing to our stockholders. In the course of reaching its decision to approve and adopt the Securities Purchase Agreement, our Board of Directors consulted our senior management and outside legal counsel and reviewed a significant amount of information and considered a significant number of factors including, but not limited to, the size of the transaction, the purchase price at the time of approval of the transaction, the terms of the Series A convertible preferred stock, including liquidation preference, voting rights and board representation and the identity of the investors. In view of the wide variety of material factors considered in connection with the evaluation of the private placement and the complexity of these matters, our Board of Directors did not find it practicable to, and did not, quantify or otherwise attempt to assign any relative weight to the various factors considered. In addition, in considering the various factors, individual members of our Board of Directors may have given different weight to different factors.

On May 12, 2003, Seattle Genetics and the Series A investors signed the definitive agreements for the sale and issuance of \$40 million of Series A convertible preferred stock and warrants to purchase 2,000,000 shares of common stock. We announced this transaction and held a conference call with stockholders on May 13, 2003. On May 14, 2003, our Board of Directors approved increasing the size of the financing to \$41 million of Series A convertible preferred stock and warrants to purchase 2,050,000 shares of common stock to include T. Rowe Price Health Sciences Fund, Inc. as a Series A investor. The private placement is subject to the stockholder approval being solicited by this proxy statement.

The press release regarding the announcement of the private placement was filed on Form 8-K with the SEC on May 15, 2003, including as exhibits the Securities Purchase Agreement, Amendment No. 1 thereto, Joinder Agreement, Option Agreement, form of Certificate of Designations, form of Investor Rights Agreement and form of Warrant. We also obtained the opinion of CIBC World Markets, described below and attached as Annex A, as part of our Board's review and approval of the transaction. On June 2, 2003, we and the Series A investors entered into Amendment No. 2 to the Securities Purchase Agreement to modify the form of Certificate of Designations to provide that each share of Series A convertible preferred stock will be entitled to 0.93 votes (rather than the initially agreed one vote) for each share of common stock into which it is then convertible in order to ensure compliance with the rules of the Nasdaq National Market.

Effects of the Proposed Investment on Seattle Genetics

The Series A investors have committed to invest \$41 million for 1,640,000 shares of Series A convertible preferred stock, which will be convertible into 16,400,000 shares of our common stock at a fixed conversion price of \$2.50 per share, subject to adjustment in certain events including stock subdivisions, combinations, splits, stock dividends, capital reorganizations, or capital reclassifications of our common stock. As of May 15, 2003 we had 30,792,344 shares of common stock outstanding. After the private placement, the Series A investors will hold shares representing approximately 34.8% of the total shares outstanding, excluding the shares of

common stock issuable upon exercise of the warrants. 2,050,000 shares of our common stock will be issuable upon the exercise of warrants issued in the private placement at an exercise price per share of \$6.25 per share. The issuance of the Series A convertible preferred stock in the private placement and the shares, if any, issued on exercise of the warrants will result in dilution of your ownership interest in Seattle Genetics.

The holders of the Series A convertible preferred stock will have the rights and preferences described in this proxy statement. Because the holders of Series A convertible preferred stock will own a significant percentage of Seattle Genetics on an as-converted basis they will have significant influence in determining the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including the approval of mergers, consolidations and the sale of all or substantially all of our assets.

The holders of the Series A convertible preferred stock will have a liquidation preference under certain circumstances in a liquidation, winding-up or dissolution of Seattle Genetics or a merger, acquisition or sale of all or substantially all of Seattle Genetics' assets as described in more detail in Terms of the Series A Convertible Preferred Stock Rights Upon Liquidation.

The holders of the Series A convertible preferred stock will be entitled to elect two members of our Board of Directors, voting as a separate class. The holders of the Series A convertible preferred stock will also have a separate class vote with respect to a number of significant corporate transactions as described below in Terms of the Series A Convertible Preferred Stock Voting Rights.

The ownership by the holders of Series A convertible preferred stock of a substantial percentage of our total voting power and the terms of the Series A convertible preferred stock could make it more difficult and expensive for a third party to pursue a change of control of Seattle Genetics. Future sales in the public market of the common stock acquired upon conversion of the Series A convertible preferred stock or upon the exercise of warrants to purchase common stock, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock and could make it more difficult for us to raise funds through a public offering of our equity securities.

Opinion of CIBC World Markets

Seattle Genetics engaged CIBC World Markets to evaluate the fairness, from a financial point of view, to the stockholders of Seattle Genetics that are not Series A investors of the consideration to be received by Seattle Genetics in connection with the Transaction. On May 12, 2003, CIBC World Markets reviewed with a subcommittee of our Board of Directors its financial analysis of the consideration payable in the Transaction and rendered to the subcommittee its oral opinion (confirmed by a written opinion dated May 12, 2003) for delivery to our full Board of Directors, to the effect that, as of the date of the opinion and based on and subject to the matters described in such opinion, the consideration to be received by Seattle Genetics in the Transaction was fair from a financial point of view to Seattle Genetics.

CIBC World Markets' opinion was provided to our Board of Directors in connection with its evaluation of the Transaction and relates only to the fairness to the stockholders of Seattle Genetics that are not Series A investors of the consideration to be received by Seattle Genetics in connection with the Transaction. The opinion does not address any other aspect of the Transaction and does not constitute a recommendation as to how any stockholder should vote or act with respect to matters relating to the Transaction. The full text of CIBC World Markets' written opinion, dated May 12, 2003, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached to this proxy statement as Annex A. You are encouraged to read the opinion carefully in its entirety.

In arriving at its opinion, CIBC World Markets:

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reviewed Seattle Genetics' annual report on Form 10-K for the fiscal year ended December 31, 2002 and Seattle Genetics' quarterly report on Form 10-Q for the quarter ended March 31, 2003;

reviewed copies of the following agreements provided to CIBC World Markets by Seattle Genetics on May 9, 2003 (the Transaction Documents):

Summary of Principal Terms and Conditions for the Preferred Stock Investment dated April 9, 2003;

Form of Certificate of Designations of Series A Convertible Preferred Stock;

Form of Investor Rights Agreement;

Securities Purchase Agreement dated as of May 12, 2003;

Form of Warrant;

Option Agreement dated as of May 12, 2003; and

Form of Regulatory Sideletter.

met telephonically with certain members of the senior management of Seattle Genetics to discuss the operations, financial condition, future prospects and projected operations and performance of Seattle Genetics;

reviewed forecasts and projections prepared by Seattle Genetics' management with respect to Seattle Genetics for the years ended December 31, 2003 through 2009;

reviewed the historical market prices and trading volume for Seattle Genetics' publicly traded securities;

reviewed publicly available financial data for certain companies that CIBC World Markets deemed comparable to Seattle Genetics, and publicly available prices and premiums paid in other transactions that we considered similar to the Transaction; and

conducted other studies, analyses and inquiries as CIBC World Markets has deemed appropriate.

The type and amount of consideration payable in the Transaction was determined through negotiation between Seattle Genetics and the Series A investors, and the decision to enter into the Transaction was solely that of the Board of Directors. CIBC World Markets' opinion was only one of many factors considered by our Board of Directors in its evaluation of the Transaction and should not be viewed as determinative of the views of the Board of Directors or management with respect to the Transaction or the consideration payable in the Transaction.

In rendering its opinion, CIBC World Markets relied on and assumed, without independent verification, that the financial and other information reviewed by CIBC World Markets was accurate and complete, that Seattle Genetics' financial forecasts and projections used in its analyses were reasonably prepared and reflected the best currently available estimates and judgments of Seattle Genetics' management as to the future financial results and condition of Seattle Genetics, and that no material changes (individually or in the aggregate) in Seattle Genetics' assets, financial condition, business or prospects had occurred since the date of the most-recent financial statements made available to CIBC World Markets.

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CIBC World Markets relied, at the direction of Seattle Genetics' management, without independent verification or investigation, on the assessments of Seattle Genetics' management of the existing and future technology and product candidates. CIBC World Markets also relied, at the direction of Seattle Genetics' management, without independent verification or investigation, on the assessments of Seattle Genetics' management of the probability that the future financial results reflected in the financial forecasts prepared by Seattle Genetics' management relating to Seattle Genetics, including the estimated revenue expected to be generated from Seattle Genetics' product candidates, will be realized as well as to the amount and timing of those future financial results if realized.

CIBC World Markets did not make any physical inspection of any of the properties of Seattle Genetics and did not make or obtain any independent evaluations or appraisals of the assets or liabilities, contingent or otherwise, of Seattle Genetics. **CIBC World Markets expressed no opinion as to the tax or legal consequences of the Transaction or the Transaction Documents, Seattle Genetics' underlying valuation, future performance or long-term viability, or the prices at which Seattle Genetics' securities may trade or otherwise be transferable at any other time. CIBC World Markets expressed no view as to, and its opinion does not address, the underlying business decision to effect the Transaction or to enter into the**

Transaction documents and its opinion does not address the relative merits of the Transaction as compared to alternative business strategies that might exist for Seattle Genetics or the effect of any transaction in which Seattle Genetics might engage. CIBC World Markets was not requested to, and did not, solicit third party indications of interest in financing or acquiring all or any part of Seattle Genetics, nor did CIBC World Markets participate in the negotiation or structuring of the Transaction or the Transaction documents. CIBC World Markets' opinion was necessarily based on the information available to CIBC World Markets and general economic, financial and stock market conditions and circumstances as they existed and could be evaluated by CIBC World Markets as of the date of its opinion. Although subsequent developments may affect its opinion, CIBC World Markets does not have any obligation to update, revise or reaffirm its opinion. Except as described above, Seattle Genetics imposed no other instructions or limitations on CIBC World Markets with respect to the investigations made or the procedures followed by it in rendering its opinion.

The following is a summary of the material financial analyses underlying CIBC World Markets' opinion to the Board of Directors in connection with the Transaction. This summary is not a complete description of CIBC World Markets' opinion or the financial analyses performed and factors considered by CIBC World Markets in connection with its opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion not readily susceptible to summary description. CIBC World Markets believes that its analyses and this summary must be considered as a whole and that selecting portions of its analyses and factors, without considering all analyses and factors, could create a misleading or incomplete view of the processes underlying CIBC World Markets' analyses and opinion.

In performing its analyses, CIBC World Markets considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of this opinion, many of which are beyond Seattle Genetics' control. No company, transaction or business used in the analyses as a comparison is identical to Seattle Genetics or the Transaction, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other facts that could affect the acquisition, public trading and other values of the companies, business segments or transactions analyzed.

The estimates contained in and the results derived from CIBC World Markets' analyses are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates contained in and the results derived from CIBC World Markets' analyses are inherently subject to uncertainty.

Selected Companies Analysis.

CIBC World Markets compared financial and stock market information of Seattle Genetics and the following seven selected publicly held companies in the biotechnology industry:

Applied Molecular Evolution, Inc.

ImmunoGen, Inc.

MorphoSys AG

NeoRx Corporation

Novuspharma SpA

Peregrine Pharmaceuticals, Inc.

Rigel Pharmaceuticals, Inc.

CIBC World Markets reviewed enterprise values, calculated as equity value plus debt, minority interests, preferred stock and out-of-the money convertible securities, less cash and investments. CIBC World Markets

then utilized a range of selected enterprise values, derived from the selected companies in order to derive an implied per share equity reference range for Seattle Genetics. Enterprise values were based on closing stock prices on May 9, 2003. Estimated financial data for the selected companies were based on publicly available research analysts' estimates and estimated financial data for Seattle Genetics were based on Seattle Genetics' internal estimates.

Discounted Earnings Per Share Analysis.

In applying the Discounted EPS analysis, CIBC World Markets started with management's estimate of Seattle Genetics' 2009 projected revenues, adjusted for the probability of achieving commercialization as determined using published estimates of clinical success, and applied a normalized net margin based on commercial-stage biotechnology comparables. The implied net income in 2009 was then divided by management's projected fully diluted share count. The price-to-earnings multiple of a universe of selected commercial-stage biotech companies was applied to the resulting probability weighted projected earnings per share in order to calculate an implied price per share in 2009. A normalized cost of capital was then used to discount the implied share price to the present.

Private Investment in Public Equities (PIPE) Study

CIBC World Markets reviewed selected PIPE transactions announced since January 1, 2001 involving biopharmaceutical companies with market capitalizations, prior to such transaction, of between approximately \$20 million and \$200 million and in which the cash proceeds raised in such transaction were approximately 10% to 100% of such market capitalization. The transactions examined were segregated into three categories: Common stock without warrants, common stock with warrants, and preferred stock (with and without warrants). Warrant values were calculated using the Black-Scholes warrant pricing model and the values of the warrants was included in determining the net discount or premium to the 1-day closing price and the 30-day volume weighted average price. These discounts to market were applied to the implied per share prices of Seattle Genetics common stock as determined by the Selected Companies enterprise valuation and the Discounted Earnings Per Share valuation.

Miscellaneous

Seattle Genetics has agreed to pay CIBC World Markets a fee of \$250,000 for its opinion services. In addition, Seattle Genetics agreed to indemnify CIBC World Markets and related parties against liabilities, including liabilities under the federal securities laws, relating to, or arising out of, its engagement. In the ordinary course of business, CIBC World Markets and its affiliates may actively trade securities of Seattle Genetics for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in those securities.

Seattle Genetics retained CIBC World Markets based on CIBC World Markets' reputation and experience. CIBC World Markets is an internationally recognized investment banking firm, and as part of its investment banking business, is regularly engaged in valuations of businesses and securities in connection with mergers and acquisitions, underwritings, secondary distributions of securities, private placements, and other purposes.

The Securities Purchase Agreement

General

On May 12, 2003, we entered into a Securities Purchase Agreement with entities affiliated with J.P. Morgan Partners, Baker Brothers Investments, Delphi Ventures and BA Venture Partners pursuant to which these investors agreed to purchase \$40 million of our Series A convertible preferred stock and warrants to purchase 2,000,000 shares of our common stock. On May 14, 2003, we and the Series A investors agreed to amend the terms of the purchase agreement to allow T. Rowe Price Health Sciences Fund, Inc. to participate in the financing by purchasing \$1 million of Series A convertible preferred stock and warrants to purchase 50,000 shares of our common stock, thereby increasing the total size of the financing to \$41 million. The summary below is qualified by reference to the Securities Purchase Agreement, Amendment No. 1 to the Securities Purchase Agreement and

the Joinder Agreement filed as exhibits to our Form 8-K filed with the SEC on May 15, 2003 and Amendment No. 2 to the Securities Purchase Agreement attached as an exhibit to our Form 8-K filed with the SEC on June 5, 2003. For a more complete understanding of the terms of these agreements, we urge you to read the agreements.

Price and Number of Shares Sold

The purchase price of the Series A convertible preferred stock is \$25.00 per share. We are selling 1,640,000 shares of Series A convertible preferred stock which will be convertible into 16,400,000 shares of our common stock. Post-closing, the shares of Series A convertible preferred stock will represent approximately 34.8% of our outstanding shares (assuming conversion at the initial conversion price). On a fully-diluted basis, assuming the exercise of all of the warrants issued at the closing and all currently outstanding options to purchase common stock (regardless of exercise price), the shares of Series A convertible preferred stock and warrants issued at closing will represent approximately 34.6% of our capital stock.

The table below discloses the numbers of shares of Series A convertible preferred stock and warrants to purchase common stock to be acquired by each of the Series A investors and the percentage ownership of such investors after completion of the private placement:

Name of Series A Investor	Number of Shares of Series A Convertible Preferred Stock (1)	Percentage of Outstanding Shares Acquired in the Private Placement (2)	Number of Warrants to Purchase Common Stock
Entities affiliated with J.P. Morgan Partners	650,000	13.8%	812,500
Entities affiliated with Baker Brothers Investments	650,000	13.8%	812,500
Entities affiliated with Delphi Ventures	200,000	4.2%	250,000
BA Venture Partners	100,000	2.1%(3)	125,000
T. Rowe Price Health Sciences Fund, Inc.	40,000	0.9%(3)	50,000
Total Series A Investors	1,640,000	34.8%(3)	2,050,000

- (1) Each share of Series A convertible preferred stock is initially convertible into ten shares of common stock, subject to adjustment in certain events including stock subdivisions, combinations, splits, stock dividends, capital reorganizations, or capital reclassifications of our common stock.
- (2) This percentage is based on 47,192,344 shares outstanding after completion of the private placement and does not include any shares issuable upon exercise of warrants to purchase common stock to be acquired in the private placement or any other shares of our common stock held by the Series A investors.
- (3) Only includes shares of Series A convertible preferred stock purchased by the Series A investors in the private placement, and excludes 2,041,884 shares of common stock held by entities affiliated with BA Venture Partners as of March 31, 2003 and 19,883 shares of common stock held by entities affiliated with T. Rowe Price Health Sciences Fund, Inc as of March 31, 2003. Disclosures of common stock ownership by the Series A investors are based solely on publicly-filed Schedule 13D s, 13F s or 13G s, which five percent or greater stockholders and certain other institutional investors are required to file with the SEC. Based on our review of such filings, BA Venture Partners is the only holder of five percent or more of our stock that is a Series A investor.

If stockholder approval of the private placement is received, we may sell up to the number of shares of Series A convertible preferred stock and warrants to purchase common stock authorized pursuant to the Proposal, although we may agree to sell a lesser number of shares under the Securities Purchase Agreement as long as the aggregate value of the shares of Series A convertible preferred stock sold is at least \$25 million.

Interest of BA Venture Partners in the Private Placement

Entities affiliated with BA Venture Partners currently own 2,041,884 shares of our common stock, representing beneficial ownership of approximately 6.6% of our common stock. As described above, in the private placement, BA Venture Partners intends to purchase 100,000 shares of Series A convertible preferred

stock, which are initially convertible into 1,000,000 shares of our common stock and which will result in BA Venture Partners percentage ownership decreasing to approximately 6.4% after completion of the private placement as calculated in accordance with the table above. In addition, BA Venture Partners will receive warrants to purchase 125,000 shares of our common stock in the private placement.

Louis Bock, a Managing Director of BA Venture Partners, was a member of our Board of Directors until early 2002. However, Mr. Bock was not a member of our Board of Directors at any time when the Board was engaged in discussions regarding the private placement.

Representations and Warranties

The Securities Purchase Agreement contains representations and warranties by us relating to, among other things, our corporate organization, capitalization and due authorization, the sale and issuance of the Series A convertible preferred stock and common stock warrants, our SEC filings, our lack of undisclosed liabilities and material adverse changes, our compliance with laws and obtaining third party approvals, and the status of our intellectual property, third party contracts, tangible assets and real property. The Securities Purchase Agreement also contains representations and warranties by the Series A investors relating to, among other things, their status as accredited investors and their investment intent.

Covenants and Agreements

We have agreed to take certain actions prior to the closing of the private placement, including operating in the ordinary course of business and notifying the Series A investors of the occurrence of certain events.

Non-Solicitation

Prior to the closing of the private placement, we have agreed not to solicit, initiate, or take any action knowingly to facilitate any third party's submission of any proposal for certain acquisitions, certain alternative financing transactions, or other transactions that could interfere with the consummation of the private placement. Despite these restrictions, if we conclude in good faith based on advice of legal counsel that we are required to do so in order to prevent a breach of the fiduciary duties of the Board of Directors to our stockholders, we are permitted to furnish information pursuant to an appropriate confidentiality agreement to a third party that has made a bona fide acquisition proposal, to carry on negotiations with a third party that has made a bona fide acquisition proposal or to take a position under applicable rules of the SEC with regard to any publicly disclosed third party proposal. Before taking any of these actions, we must provide the Series A investors with at least three business days notice of our intent to do so as well as the terms of the proposal and the identity of the persons making the proposal.

Conditions to Closing

The obligation of the Series A investors to effect the closing is conditioned on the satisfaction or waiver of the following conditions:

the filing of our Certificate of Designations with respect to the Series A convertible preferred stock;

our delivery of a duly executed Investor Rights Agreement, together with certain other documents and certificates, to the Series A investors;

our reservation of common stock for issuance upon the conversion of the Series A convertible preferred stock or exercise of the common stock warrants to be sold and issued pursuant to the Securities Purchase Agreement;

our delivery of a duly executed Regulatory Sideletter to the entities affiliated with J.P. Morgan Partners;

the amendment of our Amended and Restated Investors Rights Agreement dated as of December 22, 1999 to provide for pro rata cutbacks among the stockholders party to such agreement and the Series A investors in connection with certain registrations of securities by Seattle Genetics;

the amendment of our Amended and Restated Bylaws to permit written consents in lieu of meetings by the holders of Series A convertible preferred stock;

the absence of any event or occurrence which could reasonably be expected to have a material adverse effect with respect to Seattle Genetics;

our performance and compliance with the covenants and agreements set forth in the Securities Purchase Agreement;

the accuracy of our representations and warranties contained in the Securities Purchase Agreement as of the date they were originally made;

no applicable law having been enacted after May 12, 2003 and no legal, administrative or arbitration action, suit, complaint, charge, hearing, inquiry, investigation or proceeding may be pending which prohibits or seeks to prohibit, or materially restricts or delays the consummation of the private placement or materially restricts or impairs the ability of the Series A investors to own securities of Seattle Genetics;

the absence of any pending or threatened legal, administrative or arbitration action, suit, complaint, charge, hearing, inquiry, investigation or proceeding by the National Association of Securities Dealers, Inc. (NASD) to terminate the NASD's quotation of our common stock on the Nasdaq National Market;

all notices, consents, approvals, and authorizations necessary to consummate the transactions contemplated by the Securities Purchase Agreement shall have been made and/or obtained;

director and officer liability insurance with coverage of at least \$10,000,000 from a nationally recognized insurance company rated A or above shall be in effect and we shall have agreed to indemnify all directors to the fullest extent permissible under applicable law; and

to the extent that any Series A investor did not execute the Securities Purchase Agreement on May 12, 2003, such investor shall be reasonably acceptable to each of the entities affiliated with J.P. Morgan Partners and Baker Brothers Investments.