SEATTLE GENETICS INC /WA
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 0-32405

SEATTLE GENETICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	91-1874389
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

21823 30th Drive SE

Bothell, Washington 98021

(Address of principal executive offices, including zip code)

(Registrant s telephone number, including area code): (425) 527-4000

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of August 2, 2013, there were 121,843,582 shares of the registrant s common stock outstanding.

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Seattle Genetics, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Seattle Genetics, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except par value)

	June 30, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 27,632	$ 54,663
Short-term investments	310,457	309,595
Interest receivable	613	893
Accounts receivable, net	47,669	33,443
Inventories	38,661	37,747
Prepaid expenses and other current assets	6,343	4,519
Total current assets	431,375	440,860
Property and equipment, net	29,684	24,752
Other non-current assets	5,532	5,810
Total assets	$ 466,591	$ 471,422
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 49,577	$ 56,130
Current portion of deferred revenue	40,771	44,447
Total current liabilities	90,348	100,577
Long-term liabilities		
Deferred revenue, less current portion	133,455	138,767
Deferred rent and other long-term liabilities	5,673	5,930
Total long-term liabilities	139,128	144,697
Commitments and contingencies		
Stockholders equity		
Preferred stock, $0.001 par value, 5,000 shares authorized; none issued	0	0
Common stock, $0.001 par value, 250,000 shares authorized; 121,478 shares issued and outstanding at June 30, 2013 and 119,710 shares issued and outstanding at December 31, 2012	121	120
Additional paid-in capital	927,939	893,773
Accumulated other comprehensive income	0	37
Accumulated deficit	(690,945)	(667,782)
Total stockholders equity	237,115	226,148

Total liabilities and stockholders equity	$ 466,591	$ 471,422

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

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Seattle Genetics, Inc.

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(In thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues				
Net product sales	$ 35,736	$ 34,691	$ 69,656	$ 69,187
Collaboration and license agreement revenues	34,282	12,894	55,291	26,643
Royalty revenues	3,540	1,238	5,939	1,238
Total revenues	73,558	48,823	130,886	97,068
Costs and expenses				
Cost of sales	3,311	2,995	6,480	6,066
Cost of royalty revenues	1,447	502	2,372	502
Research and development	52,273	42,755	100,008	81,242
Selling, general and administrative	23,536	19,862	45,422	42,047
Total costs and expenses	80,567	66,114	154,282	129,857
Loss from operations	(7,009)	(17,291)	(23,396)	(32,789)
Investment and other income, net	110	55	233	3,255
Net loss	$ (6,899)	$ (17,236)	$ (23,163)	$ (29,534)
Net loss per share basic and diluted	$ (0.06)	$ (0.15)	$ (0.19)	$ (0.25)
Shares used in computation of net loss per share basic and diluted	121,317	117,252	120,888	116,800
Comprehensive loss:				
Net loss	$ (6,899)	$ (17,236)	$ (23,163)	$ (29,534)
Other comprehensive loss unrealized loss on securities available for sale	(27)	(2)	(37)	(57)
Comprehensive loss	$ (6,926)	$ (17,238)	$ (23,200)	$ (29,591)

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

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Seattle Genetics, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six months ended June 30,	
	2013	**2012**
Operating activities		
Net loss	$ (23,163)	$ (29,534)
Adjustments to reconcile net loss to net cash used in operating activities		
Share-based compensation expense	13,386	11,637
Depreciation and amortization	3,841	3,023
Amortization of premiums, accretion of discounts and gain on investments	1,233	1,016
Deferred rent and other long-term liabilities	(257)	(81)
Changes in operating assets and liabilities		
Interest receivable	280	(238)
Accounts receivable, net	(14,226)	23,402
Inventories	(914)	(16,228)
Prepaid expenses and other current assets	(1,824)	(2,806)
Accounts payable and accrued liabilities	(6,553)	(894)
Deferred revenue	(8,988)	(3,880)
Net cash used in operating activities	(37,185)	(14,583)
Investing activities		
Purchases of securities available for sale	(210,131)	(255,263)
Proceeds from maturities of securities available for sale	208,000	221,851
Proceeds from sales of securities available for sale	0	5,825
Purchases of property and equipment	(8,391)	(2,326)
Purchases of other non-current assets	(105)	0
Net cash used in investing activities	(10,627)	(29,913)
Financing activities		
Proceeds from exercise of stock options and employee stock purchase plan	20,781	17,622
Net cash provided by financing activities	20,781	17,622
Net decrease in cash and cash equivalents	(27,031)	(26,874)
Cash and cash equivalents at beginning of period	54,663	87,634
Cash and cash equivalents at end of period	$ 27,632	$ 60,760

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

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Seattle Genetics, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of presentation and summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements reflect the accounts of Seattle Genetics, Inc. and its wholly-owned subsidiary, Seattle Genetics UK, Ltd. (collectively Seattle Genetics or the Company). The condensed consolidated balance sheet data as of December 31, 2012 were derived from audited financial statements not included in this quarterly report on Form 10-Q. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC, and generally accepted accounting principles in the United States of America, or GAAP, for unaudited condensed consolidated financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the Company s financial position and results of its operations, as of and for the periods presented. Management has determined that the Company operates in one segment: the development and sale of pharmaceutical products on its own behalf or in collaboration with others.

Unless indicated otherwise, all amounts presented in financial tables are presented in thousands, except for per share and par value amounts.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of the Company s operations for the three and six month periods ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

Revenue recognition

The Company s revenues are comprised of ADCETRIS net product sales, amounts earned under its collaboration and licensing agreements and royalties. Revenue recognition is predicated upon persuasive evidence of an agreement existing, delivery of products or services being rendered, amounts payable being fixed or determinable, and collectibility being reasonably assured.

Net product sales

The Company sells ADCETRIS through a limited number of pharmaceutical distributors in the U.S. and Canada. Customers order ADCETRIS through these distributors and the Company typically ships product directly to the customer. The Company records product sales when title and risk of loss pass, which generally occurs upon delivery of the product to the customer. Product sales are recorded net of estimated government-mandated rebates and chargebacks, distribution fees, estimated product returns and other deductions. Accruals are established for these deductions and actual amounts incurred are offset against applicable accruals. The Company reflects these accruals as either a reduction in the related account receivable from the distributor, or as an accrued liability depending on the nature of the sales deduction. Sales deductions are based on management s estimates that consider payer mix in target markets, industry benchmarks and experience to date. These estimates involve a substantial degree of judgment.

Government-mandated rebates and chargebacks: The Company has entered into a Medicaid Drug Rebate Agreement, or MDRA, with the Centers for Medicare & Medicaid Services. This agreement provides for a rebate to participating states based on covered purchases of ADCETRIS. Medicaid rebates are invoiced to the Company by participating states. The Company estimates Medicaid rebates based on a third party study of the payer mix for ADCETRIS, information on utilization by Medicaid-eligible patients who received assistance through SeaGen Secure®, the Company s patient assistance program, and experience to date. The Company has also completed a Federal Supply Schedule, or FSS, agreement under which certain U.S. government purchasers receive a discount on eligible purchases of ADCETRIS. The Company has entered into a Pharmaceutical Pricing Agreement, or PPA, with the Secretary of Health and Human Services, which enables certain entities that qualify for government pricing under the Public Health Services Act, or PHS, to receive discounts on their qualified purchases of ADCETRIS.

Under these agreements, distributors process a chargeback to the Company for the difference between wholesale acquisition cost and the applicable discounted price. As a result of the Company s direct-ship distribution model, it can determine the entities purchasing ADCETRIS and this information enables the Company to estimate expected chargebacks for FSS and PHS purchases based on each entity s eligibility for the FSS and PHS programs. The Company also reviews historical rebate and chargeback information to further refine these estimates.

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Distribution fees, product returns and other deductions: The Company s distributors charge a fee for distribution services that they perform on behalf of the Company which is determined based on sales volume to each distributor. The Company allows for the return of product that is within 30 days of its expiration date or that is damaged. The Company estimates product returns based on its experience to date and historical industry information of return rates for other specialty pharmaceutical products. In addition, the Company considers its direct-ship distribution model, its belief that product is typically not held in the distribution channel, and the expected rapid use of the product by healthcare providers. The Company provides financial assistance to qualifying patients that are underinsured or cannot cover the cost of commercial coinsurance amounts through SeaGen Secure. SeaGen Secure is available to patients in the U.S. and its territories who meet various financial need criteria. Estimated contributions for commercial coinsurance are deducted from gross sales and are based on an analysis of expected plan utilization. These estimates are adjusted as necessary to reflect the Company s actual experience.

Collaboration and license agreement revenues

The Company licenses its intellectual property to third parties that use the intellectual property to develop product candidates. If there are continuing performance obligations, the Company uses a time-based proportional performance model to recognize revenue over the Company s performance period for the related agreement. Collaboration and license agreements are evaluated to determine whether the multiple elements and associated deliverables can be considered separate units of accounting. To date, the deliverables under the Company s collaboration and license agreements have not qualified as separate units of accounting. The assessment of multiple element arrangements requires judgment in order to determine the appropriate point in time, or period of time, that revenue should be recognized. The Company believes that the development period used in each agreement is a reasonable estimate of the performance obligation period of such agreement. Accordingly, all amounts received or due, including any upfront payments, maintenance fees, milestone payments and reimbursement payments, are recognized as revenue over the performance obligation periods of each agreement, which range from two to fourteen years for the Company s current agreements. When there are no performance obligations of the Company, or following the completion of the performance obligation period, such amounts will be recognized as revenue when collectibility is reasonably assured.

The Company s collaboration and license agreements include contractual milestones. Generally, the milestone events contained in the Company s collaboration and license agreements coincide with the progression of the collaborators product candidates from development to regulatory approval and then to commercialization and fall into the following categories.

Development milestones in the Company s collaborations may include the following types of events:

Designation of a product candidate or initiation of preclinical studies. The Company s collaborators must undertake significant preclinical research and studies to make a determination of the suitability of a product candidate and the time from those studies or designation to initiation of a clinical trial may take several years.

Initiation of a phase 1 clinical trial. Generally, phase 1 clinical trials may take one to two years to complete.

Initiation or completion of a phase 2 clinical trial. Generally, phase 2 clinical trials may take one to three years to complete.

Initiation or completion of a phase 3 clinical trial. Generally, phase 3 clinical trials may take two to six years to complete.

Regulatory milestones in the Company s collaborations may include the following types of events:

Filing of regulatory applications for marketing approval such as a Biologics License Application in the United States or a Marketing Authorization Application in Europe. Generally, it may take up to twelve months to prepare and submit regulatory filings.

Receiving marketing approval in a major market, such as in the United States, Europe or Japan. Generally it may take up to three years after a marketing application is submitted to obtain full approval for marketing and pricing from the applicable regulatory

agency.

Commercialization milestones in the Company s collaborations may include the following types of events:

First commercial sale in a particular market, such as in the United States, Europe, Japan or rest-of-world countries.

Product sales in excess of a pre-specified threshold. The amount of time to achieve this type of milestone depends on several factors, including, but not limited to, the dollar amount of the threshold, the pricing of the product, market penetration of the product and the rate at which customers begin using the product.

The Company has developed proprietary technologies for linking cytotoxic agents to monoclonal antibodies called antibody-drug conjugates, or ADCs. These proprietary technologies are the basis of ADC collaborations that the Company has entered into in the ordinary course of its business with a number of biotechnology and pharmaceutical companies. Under these ADC collaboration agreements, the Company grants its collaborators research and commercial licenses to the Company s technology and typically provides technology transfer services, technical advice, supplies and services for a period of time of between two and fourteen years,

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depending on the terms of each agreement. The Company s ADC collaborators are solely responsible for the development of their product candidates and the achievement of milestones in any of the categories identified above is based solely on the collaborators efforts.

In the case of the Company s other collaboration and license agreements, such as the Company s ADCETRIS collaboration with Millennium: The Takeda Oncology Company, or Millennium, or its co-development agreement with Agensys, Inc., an affiliate of Astellas Pharma, Inc., or Agensys, the Company may be involved in certain development activities; however, the achievement of milestone events under these agreements is based on activities undertaken by the collaborator.

The process of successfully developing a product candidate, obtaining regulatory approval and ultimately commercializing a product candidate is highly uncertain and the attainment of any milestones is therefore uncertain and difficult to predict. In addition, since the Company does not take a substantive role or control the research, development or commercialization of any products generated by its ADC collaborators, the Company is not able to reasonably estimate when, if at all, any milestone payments or royalties may be payable to the Company by its ADC collaborators. As such, the milestone payments associated with its ADC collaborations involve a substantial degree of uncertainty and risk that they may never be received. Similarly, even in those collaborations where the Company may have an active role in the development of the product candidate, such as the Company s ADCETRIS collaboration with Millennium, the attainment of a milestone is based on the collaborator s activities and is generally outside the direction and control of the Company.

The Company generally invoices its collaborators on a monthly or quarterly basis, or upon the completion of the effort or achievement of a milestone, based on the terms of each agreement. Deferred revenue arises from amounts received in advance of the culmination of the earnings process and is recognized as revenue in future periods when the applicable revenue recognition criteria have been met. Deferred revenue expected to be recognized within the next twelve months is classified as a current liability.

Royalty revenues and cost of royalty revenues

Royalty revenues reflect amounts earned under the ADCETRIS collaboration with Millennium. Royalties are based on a percentage of Millennium s net sales in its territory at rates that range from the mid-teens to the mid-twenties based on sales volume. Millennium bears a portion of third party royalty costs owed on sales of ADCETRIS in its territory. This amount is included in royalty revenue in the Company s consolidated financial statements. Cost of royalty revenues reflects amounts owed to the Company s third party licensors related to the sale of ADCETRIS in Millennium s territory. These amounts are recognized in the quarter in which Millennium reports its sales activity to the Company, which is the quarter following the related sales.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued ASU 2013-2 Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income that revises the disclosure requirements related to significant reclassifications of items out of accumulated other comprehensive income and into the line items included in net income. The Company adopted this standard in the first quarter of 2013 and its adoption did not impact the Company s consolidated financial statements.

2. Net loss per share

Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The Company excluded all restricted stock units and options to purchase common stock from the calculation of diluted net loss per share as such securities are anti-dilutive for all periods presented. The weighted-average number of restricted stock units and options to purchase common stock that have been excluded from the number of shares used to calculate basic and diluted net loss per share totaled 11,284 and 13,399 for the three months ended June 30, 2013 and 2012, and 11,762 and 13,720 for the six months ended June 30, 2013 and 2012, respectively (amounts in thousands.)

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3. Short-term Investments

Short-term investments consisted of available-for-sale securities as follows (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2013				
U.S. Treasury securities	$ 310,457	$ 12	$ (12)	$ 310,457
Contractual Maturities				
Due in one year or less	$ 310,457			$ 310,457

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2012				
U.S. Treasury securities	$ 309,558	$ 42	$ (5)	$ 309,595
Contractual Maturities				
Due in one year or less	$ 309,558			$ 309,595

The aggregate estimated fair value of the Company s investments with unrealized losses was as follows (in thousands):

	Period of continuous unrealized loss			
	12 Months or less		Greater than 12 months	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
June 30, 2013				
U.S. Treasury securities	$ 107,946	$ (12)	$ NA	$ NA
December 31, 2012				
U.S. Treasury securities	$ 76,015	$ (5)	$ NA	$ NA

4. Fair Value

The Company holds short-term available-for-sale securities that are measured at fair value which is determined on a recurring basis according to a fair value hierarchy that prioritizes the inputs and assumptions used, and the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The determination of a financial instrument s level within the fair value hierarchy is based on an assessment of the lowest level of any input that is significant to the fair value measurement. The Company considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Level 1 investments, which include investments that are valued based on quoted market prices in active markets, consisted of U.S. Treasury securities. The Company did not hold any Level 2 or 3 investments as of December 31, 2012 or June 30, 2013 and did not transfer any investments in or out of Levels 1, 2 and 3 during the six month period ended June 30, 2013.

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The following table presents the Company s financial assets by level within the fair value hierarchy for the periods presented (in thousands):

	Fair value measurement using:			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
As of June 30, 2013				
Short-term investments U.S. Treasury securities	$ 310,457	$ 0	$ 0	$ 310,457

	Fair value measurement using:			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
As of December 31, 2012				
Cash equivalents U.S. Treasury securities	$ 10,016	$ 0	$ 0	$ 10,016
Short-term investments U.S. Treasury securities	309,595	0	0	309,595
Total	$ 319,611	$ 0	$ 0	$ 319,611

5. Inventories

The following table presents the Company s inventories of ADCETRIS (in thousands):

	June 30, 2013	December 31, 2012
Raw materials	$ 34,972	$ 32,293
Work in process	2,537	4,605
Finished goods	1,152	849
Total	$ 38,661	$ 37,747

The Company capitalizes ADCETRIS inventory costs. ADCETRIS inventory that is deployed into clinical, research or development use is charged to research and development expense when it is no longer available for use in commercial sales. The Company does not capitalize manufacturing costs for any of its other product candidates.

6. Legal Matters

In the normal course of its business, the Company may become involved in various legal proceedings. The Company does not expect any current legal proceedings to have a material adverse effect on the Company s business. Legal fees incurred as a result of our involvement in legal proceedings are expensed as incurred.

The Company was involved in legal proceedings with Arizona State University and related entities, or ASU, concerning the Company s proprietary products, intellectual property licensed from ASU and contractual liability claims against the Company. In July 2013, ASU agreed to

dismiss all legal proceedings against the Company.

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

Forward-Looking Statements

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on our management s beliefs and assumptions and on information currently available to our management. All statements other than statements of historical facts are forward-looking statements for purposes of these provisions, including those relating to future events or our future financial performance and financial guidance. In some cases, you can identify forward-looking statements by terminology such as may, might, will, should, expect, plan, anticipate, project, believe, estimate, predict, potential, intend or continue, the negative of terms like these or other comparable terminology, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are only predictions. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Any or all of our forward-looking statements in this document may turn out to be wrong. Actual events or results may differ materially. Our forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and other factors. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q in greater detail under the heading Item 1A Risk Factors. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

Seattle Genetics is a biotechnology company focused on the development and commercialization of monoclonal antibody-based therapies for cancer. Our marketed product ADCETRIS®, or brentuximab vedotin, received accelerated approval in the United States in August 2011 and approval with conditions in Canada in February 2013 for patients with relapsed Hodgkin lymphoma or relapsed systemic anaplastic large cell lymphoma, or sALCL. ADCETRIS is an antibody-drug conjugate, or ADC, comprising an anti-CD30 monoclonal antibody attached by a protease-cleavable linker to a microtubule disrupting agent, monomethyl auristatin E (MMAE), utilizing our proprietary technology. We have a broad development strategy for ADCETRIS evaluating its potential application in earlier lines of therapy for patients with Hodgkin lymphoma or mature T-cell lymphoma, or MTCL, and in other CD30-positive malignancies. In July 2013 we received notification from the U.S. Food and Drug Administration, or FDA, regarding a supplemental Biologics License Application that we submitted in March 2013. Based on ongoing interactions with the FDA, we anticipate that the 16-cycle limitation on duration of use of ADCETRIS will be removed from the U.S. prescribing information. We further anticipate that a label claim for retreatment will not be approved.

In addition, we have six clinical-stage ADC programs, which consist of SGN-75, ASG-22ME, SGN-CD19A, SGN-CD33A, ASG-15ME and SGN-LIV1A. We recently determined, in collaboration with Agensys, Inc., an affiliate of Astellas Pharma, Inc., or Agensys, to discontinue development of ASG-5ME. We continue to develop ASG-22ME and ASG-15ME under our collaboration with Agensys.

We are collaborating with Millennium: The Takeda Oncology Company, or Millennium, to develop and commercialize ADCETRIS on a global basis. Under this collaboration, Seattle Genetics has retained commercial rights for ADCETRIS in the United States and its territories and in Canada, and Millennium has commercial rights in the rest of the world. ADCETRIS was granted conditional marketing authorization in the European Union in October 2012 for patients with relapsed Hodgkin lymphoma or relapsed sALCL. Millennium has also received and continues to pursue marketing approvals in multiple other countries.

We also have collaborations for our ADC technology with a number of biotechnology and pharmaceutical companies, including AbbVie Biotechnology Ltd. (formerly part of Abbott Laboratories), or AbbVie; Bayer Pharma AG, or Bayer; Celldex Therapeutics, Inc., or Celldex; Daiichi Sankyo Co., Ltd., or Daiichi Sankyo; Genentech, Inc., a member of the Roche Group, or Genentech; GlaxoSmithKline LLC, or GSK; Millennium, Pfizer, Inc., or Pfizer, and PSMA Development Company LLC, a subsidiary of Progenics Pharmaceuticals Inc., or Progenics; as well as ADC co-development agreements with Agensys, Genmab A/S, or Genmab, and Oxford BioTherapeutics Ltd., or OBT.

The commercial potential of ADCETRIS and the ability to realize that potential by us and Millennium remains uncertain. Our success in commercializing ADCETRIS will require, among other things, effective sales, marketing, manufacturing, distribution, information systems and pricing strategies, as well as compliance with applicable laws and regulations. The FDA granted accelerated approval of ADCETRIS which means that we are, among other things, obligated to conduct specific post-approval clinical studies to confirm patient benefit as a condition of that approval. In addition, we are exploring the use of ADCETRIS in earlier lines of therapy in patients with Hodgkin lymphoma and MTCL, including sALCL, and in other CD30-positive malignancies. In order to do this, we are required to conduct additional extensive clinical studies and, if these studies are successful, we intend to seek additional regulatory approvals.

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We and Millennium are conducting four phase 3 clinical trials of ADCETRIS, one in relapsed Hodgkin lymphoma patients following autologous stem cell transplant, or ASCT, called the AETHERA trial, one in relapsed cutaneous T-cell lymphoma, or CTCL, called the ALCANZA trial, one in frontline advanced classical Hodgkin lymphoma, called the ECHELON-1 trial, and one in frontline MTCL, including sALCL, called the ECHELON-2 trial. The FDA has agreed to special protocol assessment, or SPA, agreements for the ALCANZA, ECHELON-1 and ECHELON-2 clinical trials. An SPA is an agreement with the FDA regarding the design of the clinical trial, including size and clinical endpoints, to support an efficacy claim in a BLA submission to the FDA if the trial achieves its primary endpoints. The primary endpoint in the AETHERA trial is progression free survival versus placebo following ASCT. The primary end point in the ECHELON-1 and ECHELON-2 trials is progression free survival per independent review facility assessment in patients treated with ADCETRIS compared to that achieved with therapy in the control arm. The primary endpoint in the ALCANZA trial is overall response rate, lasting at least 4 months, in patients treated with ADCETRIS compared to that achieved with therapy in the control arm.

We have an agreement with Ventana Medical Systems, Inc., a member of the Roche Group, or Ventana, under which Ventana will develop, manufacture and commercialize a molecular companion diagnostic test with the goal of identifying patients who might respond to treatment with ADCETRIS based on CD30 expression levels in their tissue specimens. A molecular companion diagnostic is not required for the current approved indications for ADCETRIS; however, we expect that a molecular companion diagnostic may be required by regulatory authorities to support regulatory approval of ADCETRIS in other CD30-positive malignancies.

All of these activities will require substantial amounts of capital and may not ultimately prove successful. Our other product candidates are in relatively early stages of development. These product candidates will require significant further development, financial resources and personnel to obtain regulatory approval and develop into commercially viable products, if at all. Accordingly, over the next several years, we expect that we will incur substantial expenses, primarily as a result of activities related to the commercialization and continued development of ADCETRIS. We will also continue to invest in research, development and manufacturing of our other product candidates. Our commitment of resources to the continuing development, regulatory and commercialization activities for ADCETRIS and the research, continued development and manufacturing of our other product candidates may require us to raise substantial amounts of additional capital and our operating expenses will fluctuate as a result of such activities. In addition, we may incur significant milestone payment obligations as our product candidates progress through clinical trials towards potential commercialization.

Although we recognize revenue from ADCETRIS product sales in the United States and Canada, we have only limited experience commercializing ADCETRIS and our future ADCETRIS product sales will be difficult to accurately predict from period to period. In this regard, our product sales revenue may vary significantly from period to period and may be affected by a variety of factors, including the level of demand for ADCETRIS, the duration of therapy for patients receiving ADCETRIS, and the extent to which coverage and reimbursement for ADCETRIS is available from government and other third-party payers, particularly in an increasingly challenging environment due to, among other things, the attention being paid to health care cost containment and other austerity measures in the U.S. and worldwide. In addition, we believe that our initial sales of ADCETRIS in the United States have depleted the prevalence pool of patients in its approved indications and therefore, our ongoing sales of ADCETRIS will be primarily dependent on the incidence rate of new patients who have recently failed earlier lines of cancer therapy and become eligible for ADCETRIS within the current approved indications. Accordingly, we believe that the level of our ongoing ADCETRIS sales is now largely subject to the incidence flow of patients eligible for treatment with ADCETRIS, which could vary significantly from period to period. Moreover, while the incidence rate of newly relapsing patients in ADCETRIS approved indications has not been definitely determined, we believe that the incidence rate is relatively low. For these and other reasons, we expect that future ADCETRIS sales growth, if any, will be primarily dependent on future price increases and our ability to expand the labeled indications of use. Our efforts to expand ADCETRIS labeled indications of use will require additional time and investment in clinical trials to complete and we may not be successful. Our ability to successfully commercialize ADCETRIS and to expand its labeled indications of use are subject to a number of risks and uncertainties, including those discussed in Part II, Item 1A of this Quarterly Report on Form 10-Q. We also expect that amounts earned from our collaboration agreements will continue to be an important source of our revenues and cash flows. These revenues will be impacted by future development funding and the achievement of development and clinical milestones by our collaborators under our existing collaboration and license agreements, including, in particular, our ADCETRIS collaboration with Millennium, as well as entering into new collaboration and license agreements. Our results of operations may vary substantially from year to year and from quarter to quarter and, as a result, we believe that period to period comparisons of our operating results may not be meaningful and should not be relied upon as being indicative of our future performance.

Financial summary

For the six months ended June 30, 2013, total revenues increased to $130.9 million, compared to $97.1 million for the same period in 2012. This increase was primarily due to growth in collaboration revenue. Net product sales of ADCETRIS were $69.7 million for the six months ended June 30, 2013 compared to $69.2 million for the six months ended June 30, 2012. For the six months ended June 30, 2013, total costs and expenses increased to $154.3 million, compared to $129.9 million for the same period in 2012. This primarily reflects increases in ADCETRIS collaboration activities, including product supply to Millennium and clinical

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development efforts to explore additional potential applications of ADCETRIS, as well as investment in our ADC pipeline programs. As of June 30, 2013, we had $338.1 million in cash and short-term investments, and $237.1 million in total stockholders equity.

Results of operations

Three and six months ended June 30, 2013 and 2012

Net product sales

We sell ADCETRIS in the U.S. and Canada. Our net product sales were $35.7 million and $34.7 million for the three month periods ended June 30, 2013 and 2012, respectively, and $69.7 million and $69.2 million for the six month periods ended June 30, 2013 and 2012, respectively. The increases for both periods were due to a higher average selling price for ADCETRIS, partially offset by lower sales volume in both periods. We sell ADCETRIS through a limited number of pharmaceutical distributors. Customers order ADCETRIS through these distributors and we typically ship product directly to the customer. We record product sales when title and risk of loss pass, which generally occurs upon delivery of the product to the customer. Product sales are recorded net of estimated government-mandated rebates and chargebacks, distribution fees, estimated product returns and other deductions. Accruals are established for these deductions and actual amounts incurred are offset against applicable accruals. We reflect these accruals as either a reduction in the related account receivable from the distributor, or as an accrued liability depending on the nature of the sales deduction. Sales deductions are based on our estimates that consider payer mix in target markets, industry benchmarks and experience to date. These estimates involve a substantial degree of judgment.

Government-mandated rebates and chargebacks: We have entered into a Medicaid Drug Rebate Agreement with the Centers for Medicare & Medicaid Services. This agreement provides for a rebate to participating states based on covered purchases of ADCETRIS. Medicaid rebates are invoiced to us by participating states. We estimate Medicaid rebates based on a third party study of the payer mix for ADCETRIS, information on utilization by Medicaid-eligible patients who received assistance through SeaGen Secure, our patient assistance program and experience to date. We also have completed our Federal Supply Schedule, or FSS, agreement under which certain U.S. government purchasers receive a discount on eligible purchases of ADCETRIS. We have entered into a Pharmaceutical Pricing Agreement, or PPA, with the Secretary of Health and Human Services which enables certain entities that qualify for government pricing under the Public Health Services Act, or PHS, to receive discounts on their qualified purchases of ADCETRIS. Under these agreements, distributors process a chargeback to us for the difference between wholesale acquisition cost and the applicable discounted price. As a result of our direct-ship distribution model, we can identify the entities purchasing ADCETRIS and this information enables us to estimate expected chargebacks for FSS and PHS purchases based on each entity s eligibility for the FSS and PHS programs. We also review actual rebate and chargeback information to further refine these estimates.

Distribution fees, product returns and other deductions: Our distributors charge a fee for distribution services that they perform on our behalf which is determined based on sales volume to each distributor and the negotiated fee. We allow for the return of product that is within 30 days of its expiration date or that is damaged. We estimate product returns based on our experience to date and historical industry information of return rates for other specialty pharmaceutical products. In addition, we consider our direct-ship distribution model, our belief that product is typically not held in the distribution channel, and the expected rapid use of the product by healthcare providers. We provide reimbursement and financial assistance to qualifying patients in the U.S. and its territories who meet various financial need criteria and are underinsured or cannot cover the cost of commercial coinsurance amounts through SeaGen Secure. Estimated contributions for commercial coinsurance are deducted from gross sales. These contributions are based on an analysis of expected plan utilization. These estimates are adjusted as necessary to reflect our actual experience.

We record product sales net of estimated government-mandated rebates and chargebacks, distribution fees, product returns and other deductions. These are generally referred to as gross-to-net deductions. Gross-to-net deductions, net of related payments and credits, are summarized as follows: (in thousands):

	Rebates and chargebacks	Distribution fees, product returns and other	Total
Balance as of December 31, 2012	$ 4,131	$ 1,601	$ 5,732
Provision related to current period sales	8,656	1,699	10,355
Adjustment for prior period sales	(488)	(53)	(541)
Payments/credits for current period sales	(6,953)	(964)	(7,917)

Payments/credits for prior period sales	(686)	(655)	(1,341)
Balance as of June 30, 2013	$ 4,660	$ 1,628	$ 6,288

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Deductions from gross sales increased in 2013 compared to 2012 as a result of increased discounts attributable to government programs. We expect future gross-to-net discounts to fluctuate based on the volume of purchases eligible for government mandated discounts and rebates as well as changes in the discount percentage which is impacted by potential future price increases, the rate of inflation, and other factors.

Collaboration and license agreement revenues

We license our intellectual property to third parties that use the intellectual property to develop product candidates. If there are continuing performance obligations, we use a time-based proportional performance model to recognize revenue over our performance period for the related agreement. Collaboration and license agreements are evaluated to determine whether the multiple elements and associated deliverables can be considered separate units of accounting. To date, the deliverables under our collaboration and license agreements have not qualified as separate units of accounting. The assessment of multiple element arrangements requires judgment in order to determine the appropriate point in time, or period of time, that revenue should be recognized. We believe that the development period used in each agreement is a reasonable estimate of the performance obligation period of such agreement. Accordingly, all amounts received or due, including any upfront payments, maintenance fees, milestone payments and reimbursement payments, are recognized as revenue over the performance obligation periods of each agreement, which range from two to fourteen years for our current agreements. When we have no further performance obligations or following the completion of the performance obligation period, such amounts will be recognized as revenue when collectibility is reasonably assured.

Our collaboration and license agreements include contractual milestones. Generally, the milestone events contained in our collaboration and license agreements coincide with the progression of the collaborators product candidates from development, to regulatory approval and then to commercialization and fall into the following categories.

Development milestones in our collaborations may include the following types of events:

- Designation of a product candidate or initiation of preclinical studies. Our collaborators must undertake significant preclinical research and studies to make a determination of the suitability of a product candidate and the time from those studies or designation to initiation of a clinical trial may take several years.
- Initiation of a phase 1 clinical trial. Generally, phase 1 clinical trials may take one to two years to complete.
- Initiation or completion of a phase 2 clinical trial. Generally, phase 2 clinical trials may take one to three years to complete.
- Initiation or completion of a phase 3 clinical trial. Generally, phase 3 clinical trials may take two to six years to complete.

Regulatory milestones in our collaborations may include the following types of events:

- Filing of regulatory applications for marketing approval such as a BLA in the United States or a Marketing Authorization Application in Europe. Generally, it may take up to twelve months to prepare and submit regulatory filings.
- Receiving marketing approval in a major market, such as in the United States, Europe, Japan or rest-of-world countries. Generally it may take up to three years after a marketing application is submitted to obtain full approval for marketing and pricing from the applicable regulatory agency.

Commercialization milestones in our collaborations may include the following types of events:

- First commercial sale in a particular market, such as in the United States, Europe, Japan or rest-of-world countries.

Product sales in excess of a pre-specified threshold. The amount of time to achieve this type of milestone depends on several factors, including, but not limited to, the dollar amount of the threshold, the pricing of the product, market penetration of the product and the rate at which customers begin using the product.

Our proprietary ADC technologies are the basis of our ADC collaborations that we have entered into in the ordinary course of business with a number of biotechnology and pharmaceutical companies. Under these ADC collaboration agreements, we grant our collaborators research and commercial licenses to our technology and typically provide technology transfer services, technical advice, supplies and services for a period of time of between two and fourteen years depending on the terms of each agreement. Our ADC collaborators are solely responsible for the development of their product candidates and the achievement of milestones in any of the categories identified above is based solely on the collaborators efforts.

In the case of our other collaboration and license agreements, such as our ADCETRIS collaboration with Millennium or our co-development agreement with Agensys, we may be involved in certain development activities; however, the achievement of milestone events under these agreements is based on activities undertaken by the collaborator.

The process of successfully developing a product candidate, obtaining regulatory approval and ultimately commercializing a product candidate is highly uncertain and the attainment of any milestones is therefore uncertain and difficult to predict. In addition,

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since we do not take a substantive role or control the research, development or commercialization of any products generated by our ADC collaborators, we are not able to reasonably estimate when, if at all, any milestone payments or royalties may be payable to us by our ADC collaborators. As such, the milestone payments associated with our ADC collaborations involve a substantial degree of uncertainty and risk that they may never be received. Similarly, even in those collaborations where we may have an active role in the development of the product candidate, such as our ADCETRIS collaboration with Millennium, the attainment of a milestone is based on the collaborator s activities and is generally outside our direction and control.

We generally invoice our collaborators on a monthly or quarterly basis, or upon the completion of the effort or achievement of a milestone, based on the terms of each agreement. Deferred revenue arises from amounts received in advance of the culmination of the earnings process and is recognized as revenue in future periods when the applicable revenue recognition criteria have been met. Deferred revenue expected to be recognized within the next twelve months is classified as a current liability.

Collaboration and license agreement revenues by collaborator are summarized as follows:

	Three months ended June 30,			Six months ended June 30,		
Collaboration and license agreement revenue by collaborator ($ in thousands)	**2013**	**2012**	**% Change**	**2013**	**2012**	**% Change**
Millennium	$ 8,624	$ 7,214	20%	$ 18,966	$ 13,593	40%
Bayer	12,000	0	N/A	12,000	0	N/A
AbbVie	3,124	1,264	147%	7,924	2,601	205%
Agensys	5,645	737	666%	6,382	3,358	90%
Genentech	3,452	1,357	154%	4,362	2,219	97%
GSK	906	760	19%	2,929	1,554	88%
Other	531	1,562	(66%)	2,728	3,318	(18%)
Total	$ 34,282	$ 12,894	166%	$ 55,291	$ 26,643	108%

Millennium ADCETRIS and ADC collaborations

Revenues earned under our ADCETRIS and ADC collaborations with Millennium represented 25% and 56% of our collaboration and license agreement revenues during the three month periods ended June 30, 2013 and 2012, and 34% and 51% during the six month periods ended June 30, 2013 and 2012, respectively. Revenues from Millennium increased as compared to the comparable periods in 2012 as a result of increased activity related to the ADCETRIS collaboration including reimbursement for clinical trial and drug supply activities.

Under the ADCETRIS collaboration, we are entitled to receive development- and sales-dependent milestone payments based on Millennium s achievement of certain events related to ADCETRIS for which Millennium is responsible, payment for product supplied to Millennium and development funding equal to 50% of joint development costs. We are also entitled to tiered royalties at percentages starting in the mid-teens and escalating to the mid-twenties based on net sales of ADCETRIS within Millennium s licensed territories. Millennium also bears a portion of third party royalty costs owed on sales of ADCETRIS in its territory. Total future potential milestone payments to us under the ADCETRIS collaboration could total approximately $205 million. Of the remaining amount, up to approximately $7 million relates to the achievement of development milestones, up to approximately $133 million relates to the achievement of regulatory milestones and up to approximately $65 million relates to the achievement of commercial milestones. To date, we have received $30 million in milestone payments related to the application acceptance and conditional marketing authorization of ADCETRIS by the European Commission.

We recognize as collaboration revenue the $60 million upfront collaboration payment, as well as other amounts earned to date, including regulatory milestones, product supply and net development cost reimbursements over the ten-year development period of the collaboration. We receive reimbursement funding from Millennium equal to one-half of the cost of joint development activities that are performed by us under the collaboration. To the extent that Millennium performs development activities under the collaboration, our development cost reimbursement payments from Millennium are reduced by an amount equal to half of the costs incurred by Millennium. We expect that development activities performed by Millennium will continue to increase, including certain clinical trials of ADCETRIS, which will lead to a reduction in the level of net reimbursement funding that we receive from Millennium.

Collaboration and Co-Development Agreement with Agensys

We have entered into an agreement with Agensys to jointly research, develop and commercialize ADCs for cancer. Under this collaboration and co-development agreement, Agensys is conducting preclinical studies aimed at identifying ADC product candidates

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for multiple designated antigens. We are currently co-developing ASG-22ME and ASG-15ME, a program we opted into in June 2013. We and Agensys recently determined to discontinue development of ASG-5ME under our collaboration. Agensys has the right to develop and commercialize other ADC product candidates on its own, subject to paying us annual maintenance fees, milestones, royalties and support fees for research and development services and material provided under the agreement. Either party may opt out of co-development and profit-sharing in return for receiving milestones and royalties from the continuing party. Amounts received for product candidates being developed solely by Agensys are recognized as revenue. Revenues attributable to the Agensys agreement increased during both the three and six month periods ended June 30, 2013 from the comparable periods in 2012 due to a payment made to us in the second quarter of 2013 to exercise an exclusive license for an ADC product candidate and Agensys decision in the second quarter of 2013 not to extend the research term of the collaboration, which accelerated recognition of the remaining deferred revenue. Revenue attributable to the Agensys collaboration is expected to decline over the remainder of the year.

ADC collaboration agreements

We have other active ADC collaborations with a number of companies to allow them to use our proprietary ADC technology. Under our ADC collaborations, which we enter into in the ordinary course of business, we receive or are entitled to receive upfront cash payments, progress-dependent milestones and royalties on net sales of products incorporating our ADC technology, as well as annual maintenance fees and support fees for research and development services and materials provided under the agreements. These amounts are recognized as revenue over the performance obligation period of the agreements during which we provide limited support to the collaborator. As of June 30, 2013, our ADC collaborations had generated more than $225 million, primarily in the form of upfront payments. Total milestone payments provided for under our ADC collaborations as of June 30, 2013 could approximate up to $3.7 billion if all potential product candidates achieved all of the milestone events under all of our current ADC collaborations. Of this amount, approximately $0.7 billion relates to the achievement of development milestones, approximately $1.5 billion relates to the achievement of regulatory milestones and approximately $1.5 billion relates to the achievement of commercial milestones. Our ADC collaborators are responsible for development, manufacturing and commercialization of any ADC product candidates that result from the collaborations and are solely responsible for the achievement of any of the potential milestones under these collaborations. Since we do not control the research, development or commercialization of any products generated by our ADC collaborators, we are not able to reasonably estimate when, if at all, any milestone payments or royalties may be payable by our ADC collaborators. In addition, our current ADC collaborations are at early stages of development. Successfully developing a product candidate, obtaining regulatory approval and ultimately commercializing it is a significantly lengthy and highly uncertain process which entails a significant risk of failure. In addition, business combinations, changes in an ADC collaborator s business strategy and financial difficulties or other factors could result in an ADC collaborator abandoning or delaying development of its ADC product candidates. As such, the milestone payments associated with our ADC collaborations involve a substantial degree of risk to achieve and may never be received. Accordingly, we do not expect, and investors should not assume, that we will receive all of the potential milestone payments provided for under our ADC collaborations and it is possible that we may never receive any significant milestone payments under our ADC collaborations.

In June 2013, we entered into a new ADC collaboration agreement with Bayer. Bayer revenues during the three and six month periods ended June 30, 2013 reflects the earned portion of initial amounts due from Bayer under the collaboration.

AbbVie revenues increased during both the three and six month periods ended June 30, 2013 as compared to the prior year primarily due to the earned portion of an upfront payment related to an ADC collaboration entered into in October 2012.

Genentech revenues increased in both the three and six month periods ended June 30, 2013 compared to the comparable periods in 2012 as a result of payments made by Genentech for exclusive licenses to certain product candidates and to extend the research term of the collaboration.

GSK revenues increased during both the three and six month periods ended June 30, 2013 from the comparable periods in 2012 as a result of the earned portion of a milestone payment achieved in January 2013.

Our collaboration revenues are impacted by the term and duration of our collaboration and co-development agreements and by progress-dependent milestones, annual maintenance fees and reimbursement of materials and support services as our collaborators advance their ADC product candidates through the development process. Revenues may vary substantially from year to year and quarter to quarter depending on the progress made by our collaborators with their product candidates, the level of support we provide to our collaborators, the timing of milestones achieved, and our ability to enter into additional collaboration and co-development agreements. We have a significant balance of deferred revenue, representing prior payments from our collaborators that have not yet been recognized as revenue. This deferred revenue will be recognized as revenue in future periods using a time-based approach as we fulfill our performance obligations.

Royalty Revenues and Cost of Royalty Revenues

Royalty revenues reflect amounts earned under the ADCETRIS collaboration with Millennium. In October 2012, Millennium began its commercial launch of ADCETRIS in the European Union upon receiving conditional marketing authorization from the

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European Commission for ADCETRIS in two indications. Also, where applicable, Millennium made ADCETRIS available under its international named patient program. Cost of royalty revenues reflect amounts owed to our third party licensors related to the sale of ADCETRIS in Millennium s territory. We expect that royalty revenues and cost of royalty revenues will increase in 2013 as a result of the European Commission approval and increased commercial sales of ADCETRIS by Millennium.

Cost of Sales

ADCETRIS cost of sales includes manufacturing costs of product sold, third party royalty costs, amortization of technology license costs and distribution and other costs. We began capitalizing ADCETRIS manufacturing costs as inventory following the accelerated approval by the FDA in August 2011. The cost of product manufactured prior to FDA approval was expensed as research and development expense as incurred and was combined with other research and development expenses. While we track the quantities of individual ADCETRIS product lots, we did not track pre-FDA approval manufacturing costs in our inventory system and therefore the manufacturing cost of ADCETRIS produced prior to FDA approval is not reasonably determinable. Most of the product produced prior to FDA approval is available for us to use commercially. We expect that our cost of sales as a percentage of sales will increase in future periods as product manufactured prior to FDA approval, and therefore fully expensed, is consumed. This cost benefit is expected to continue to some extent for at least the next twelve months, but is expected to decline based on when the components of the specific drug lots sold were produced. However, the time period over which this reduced-cost inventory is consumed will depend on a number of factors, including the amount of future ADCETRIS sales, the ultimate use of this inventory in either commercial sales, clinical development or other research activities, and the ability to utilize inventory prior to its expiration date. We expect, as this reduced-cost inventory is used, the percentage of total costs of sales for sales of ADCETRIS will increase into the low-to-mid teens. Cost of sales increased during both the three and six month periods ended June 30, 2013 from the comparable periods in 2012 due to a higher average cost of product sold.

Research and development.

Our research and development expenses are summarized as follows:

	Three months ended June 30,			Six months ended June 30,		
Research and development ($ in thousands)	**2013**	**2012**	**% Change**	**2013**	**2012**	**% Change**
Research	$ 10,083	$ 3,723	171%	$ 14,814	$ 7,448	99%
Development and contract manufacturing	16,629	13,120	27%	35,006	27,261	28%
Clinical	22,419	23,290	(4%)	44,109	41,107	7%
Share-based compensation expense	3,142	2,622	20%	6,079	5,426	12%
Total research and development expenses	$ 52,273	$ 42,755	22%	$ 100,008	$ 81,242	23%

Research expenses include, among other things, personnel, occupancy and laboratory expenses and technology access fees associated with the discovery and identification of new monoclonal antibodies and related technologies and the development of novel classes of stable linkers and cell-killing agents for our ADC technology. Research expenses also include research activities associated with our product candidates, such as preclinical translational biology and in vitro and in vivo studies. The increase in research expenses during both the three and six month periods ended June 30, 2013 as compared to the same periods in 2012 is related to increasing costs for the advancement of our product candidates and an opt in fee to Agensys to co-develop ASG-15ME.

Development and contract manufacturing expenses include personnel and occupancy expenses and external contract manufacturing costs for the scale up and pre-approval manufacturing of drug product for use in research and our clinical trials. Development and contract manufacturing expenses also include quality control and assurance activities, and storage and shipment of our product candidates. The increase in development and contract manufacturing expenses during both the three and six month periods ended June 30, 2013 resulted primarily from increased ADCETRIS collaboration activities, including higher drug supply costs.

Clinical expenses include personnel expenses, travel, occupancy costs and external clinical trial costs including clinical site expenses, clinical research organization charges, contractors and regulatory activities associated with conducting human clinical trials, including IND-enabling pharmacology and toxicology studies. The decrease in clinical expenses during the three month period ended June 30, 2013 as compared to the prior year period reflects decreased activity related to the development of a companion diagnostic test for identifying CD30-positive malignancies that might respond to treatment with ADCETRIS and pre-clinical development studies which was partially offset by higher

compensation costs due to increased staffing levels. The increase during the six month period ended June 30, 2013 as compared to the prior year period reflects increased clinical trial activity related to ADCETRIS collaboration activities and our product candidates, as well as higher compensation costs due to increased staffing levels.

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Share-based compensation expense reflects the non-cash charge associated with stock options, restricted stock units and our employee stock purchase plan. The fair value of all employee share-based payments is charged to expense over the vesting period of the related arrangement. The increase in share-based compensation expense during both the three and six month periods ended June 30, 2013 was primarily due to a higher average fair value per share for our more recent equity grants primarily attributable to an increase in our stock price.

We utilize our employee and infrastructure resources across multiple development projects as well as our discovery and research programs directed towards identifying monoclonal antibodies and new classes of stable linkers and cell-killing agents for our ADC program. We track human resource efforts expended on many of our programs for purposes of billing our collaborators for time incurred at agreed upon rates and for resource planning. We do not account for actual costs on a project-by-project basis as it relates to our infrastructure, facility, employee and other indirect costs. We do, however, separately track significant third party costs including clinical trial costs, manufacturing costs and other contracted service costs on a project-by-project basis.

The following table shows expenses incurred for research, contract manufacturing of our product candidates and clinical and regulatory services provided by third parties as well as milestone payments for in-licensed technology for ADCETRIS and each of our clinical-stage product candidates. The table also presents other costs and overhead consisting of personnel, facilities and other indirect costs not directly charged to these development programs:

	Three months ended June 30,		Six months ended June 30,		Five years ended June 30, 2013
Development program ($ in thousands)	**2013**	**2012**	**2013**	**2012**	
ADCETRIS (brentuximab vedotin)	$ 14,718	$ 12,643	$ 30,926	$ 20,353	$ 223,138
ASG-15ME	4,955	0	4,955	0	4,955
SGN-LIV1A	879	1,504	1,665	1,928	7,718
SGN-CD33A	343	2,459	1,507	3,813	14,203
ASG-22ME	517	2,082	1,469	4,278	13,924
SGN-CD19A	785	428	1,270	2,989	16,085
SGN-75	154	305	398	384	12,409
	22,351	19,421	42,190	33,745	292,432
Other costs and overhead	26,780	20,712	51,739	42,071	425,314
Share-based compensation expense	3,142	2,622	6,079	5,426	46,797
Total research and development	$ 52,273	$ 42,755	$ 100,008	$ 81,242	$ 764,543

Third-party costs for ADCETRIS increased during both the three and six month periods ended June 30, 2013 from the comparable periods in 2012, primarily due to increased ADCETRIS collaboration activities related to drug supply costs. ADCETRIS costs also reflect increased clinical trial activity including initiation of the ECHELON-2 trial in early 2013.

In June 2013, we exercised an option under our ADC co-development agreement with Agensys to co-develop ASG-15ME. In addition to the payment of an option fee, we now co-fund one-half of the development costs of this program.

Third party costs for our product candidates SGN-LIV1A, SGN-CD33A and ASG-22ME, all decreased for the three and six month periods ended June 30, 2013 from the comparable periods in 2012. The expenses in the comparable periods in 2012 for all of these programs reflect higher pre-IND costs related to preparation for clinical trials. ASG-22ME is a co-development project with Agensys for which each party co-funds fifty percent of the development cost.

Third party costs for SGN-CD19A increased for the three month period ended June 30, 2013 compared to the three months ended June 30, 2012 due to increasing clinical trial costs as we initiated our phase 1 trial in the first quarter of 2013. Third party costs for SGN-CD19A decreased during the six month period ended June 30, 2013, when compared to the same period in 2012, reflecting higher manufacturing costs incurred in 2012 in preparation for clinical trials, partially offset by an increase in clinical trial costs in 2013.

Other costs and overhead include costs associated with personnel and facilities. These costs increased during both the three and six month periods ended June 30, 2013 from the comparable periods in 2012, primarily reflecting an increase in staffing levels in our development and clinical groups in the 2013 periods.

Our expenditures on current and future preclinical and clinical development programs are subject to numerous uncertainties in timing and cost to completion. In order to advance our product candidates toward commercialization, the product candidates are tested in numerous preclinical safety, toxicology and efficacy studies. We then conduct clinical trials for those product candidates that take

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several years or more to complete. The length of time varies substantially based upon the type, complexity, novelty and intended use of a product candidate. The cost of clinical trials may vary significantly over the life of a project as a result of a variety of factors, including:

- the number of patients required in our clinical trials;
- the length of time required to enroll trial participants;
- the number and location of sites included in the trials;
- the costs of producing supplies of the product candidates needed for clinical trials and regulatory submissions;
- the safety and efficacy profile of the product candidate;
- the use of clinical research organizations to assist with the management of the trials; and
- the costs and timing of, and the ability to secure, regulatory approvals.

Reports of adverse events or safety concerns involving ADCETRIS and our product candidates could interrupt, delay or halt clinical trials of ADCETRIS and our product candidates, including the ADCETRIS post-approval confirmatory studies that are required as a condition to our regulatory approvals.

Our strategy has included entering into collaborations with third parties. In these situations, the preclinical development or clinical trial process for a product candidate and the estimated completion date are largely under the control of that third party and not under our control. We cannot forecast with any degree of certainty which of our product candidates will be subject to future collaborations or how such arrangements would affect our development plans or capital requirements.

We anticipate that our total research and development expenses in 2013 will increase compared to 2012 due to increased clinical trial expenses for ADCETRIS related to additional studies to evaluate other potential uses of ADCETRIS, some of which are post-approval commitment trials, drug supply costs under the ADCETRIS collaboration and as a result of amounts incurred to continue the development of our ADC product candidates. Certain ADCETRIS development activities, including some clinical studies, will be conducted by Millennium, the costs of which will not be reflected in our research and development expenses but rather as a reduction in development funding we receive under the collaboration. Because of these and other factors, expenses will fluctuate based upon many factors, including the degree of collaborative activities, timing of manufacturing campaigns, numbers of patients enrolled in our clinical trials and the outcome of each clinical trial event.

The risks and uncertainties associated with our research and development projects are discussed more fully in Item 1A Risk Factors. As a result of the uncertainties discussed above, we are unable to determine with any degree of certainty the duration and completion costs of our research and development projects, anticipated completion dates or when and to what extent we will receive cash inflows from the commercialization and sale of our product candidates.

Selling, general and administrative

	Three months ended June 30,			Six months ended June 30,		
Selling, general and administrative ($ in thousands)	**2013**	**2012**	**% Change**	**2013**	**2012**	**% Change**
	$ 19,898	$ 16,948	17%	$ 38,115	$ 35,836	6%

Selling, general and administrative, excluding share-based compensation expense						
Share-based compensation expense	3,638	2,914	25%	7,307	6,211	18%
Total selling, general and administrative expenses	$ 23,536	$ 19,862	19%	$ 45,422	$ 42,047	8%

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Selling, general and administrative expenses, excluding share-based compensation expense, increased during both the three and six month periods ended June 30, 2013 from the comparable periods in 2012, primarily reflecting increases in sales and marketing activities related to ADCETRIS, legal expenses, and higher compensation costs due to increased staffing levels. Share-based compensation expense reflects the non-cash charge associated with stock options, restricted stock units and our employee stock purchase plan. The fair value of all employee share-based payments is charged to expense over the vesting period of the related arrangement. Share-based compensation expense increased during both the three and six month periods ended June 30, 2013 from the comparable periods in 2012 due to a higher average fair value per optioned share for our more recent grants primarily attributable to an increase in our stock price.

Investment and other income, net

Investment and other income, net was $0.1 million for both the three months ended June 30, 2013 and June 30, 2012, and decreased substantially for the six months ended June 30, 2013 from the comparable period in 2012, reflecting a recovery in 2012 from a former investment advisor in settlement of claims against the advisor concerning our previous holdings in auction rate securities.

Liquidity and capital resources

Selected balance sheet and cash flow data ($ in thousands)	June 30, 2013	December 31, 2012
Cash, cash equivalents and investments	$ 338,089	$ 364,258
Working capital	341,027	340,283
Stockholders equity	237,115	226,148

	Six months ended June 30, 2013	2012
Cash provided by (used in):		
Operating activities	$ (37,185)	$ (14,583)
Investing activities	(10,627)	(29,913)
Financing activities	20,781	17,622

Our combined cash, cash equivalents and investment securities decreased during the six months ended June 30, 2013 primarily reflecting our net loss and working capital fluctuations for the six months ended June 30, 2013.

Net cash used in operating activities increased during the six months ended June 30, 2013 from the comparable period in 2012 due to working capital fluctuations, particularly an increase in accounts receivable related to the timing of collaboration billings, partially offset by a reduced net loss in 2013.

Net cash used in investing activities decreased during the six months ended June 30, 2013 compared to the six months ended June 30, 2012 reflecting higher amounts of cash invested during 2012, partially offset by an increase in the costs incurred in 2013 for tenant improvements and laboratory equipment for our newest facility.

Net cash provided by financing activities for both the six months ended June 30, 2013 and June 30, 2012 resulted from the proceeds of stock option exercises and our employee stock purchase plan.

We have financed the majority of our operations through the issuance of equity securities, by amounts received pursuant to product collaborations, our ADC collaborations and, more recently, through collections from commercial sales of ADCETRIS. To a lesser degree, we have also financed our operations through royalty revenues and interest earned on cash, cash equivalents and investment securities. These financing sources have historically allowed us to maintain adequate levels of cash and investments.

Our cash and investments are held in a variety of non-interest bearing bank accounts and interest-bearing instruments subject to investment guidelines allowing for holdings in U.S. government and agency securities, corporate securities, taxable municipal bonds, commercial paper and money market accounts. Our investment portfolio is structured to provide for access to cash to fund our anticipated working capital needs. However, if our liquidity needs should be accelerated for any reason in the near term, or investments do not pay at maturity, we may be required to sell investment securities in our portfolio prior to their scheduled maturities, which may result in a loss. As of June 30, 2013, we had $338.1 million held in cash reserves or debt securities scheduled to mature within the next twelve months.

At our currently planned spending rate we believe that our financial resources, together with product and royalty revenues from sales of ADCETRIS and the fees, milestone payments and reimbursements we expect to receive under our existing collaboration and

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license agreements, will be sufficient to fund our operations for at least the next twelve months. Changes in our spending rate may occur that would consume available capital resources sooner, such as increased development, manufacturing and clinical trial expenses in connection with required post-approval studies and additional studies to potentially expand the use of ADCETRIS or to advance our other ADC pipeline programs. Further, in the event of a termination of the ADCETRIS collaboration agreement with Millennium, we would not receive development cost sharing payments, nor would we receive milestone payments or royalties for the development or sale of ADCETRIS in Millennium s territories. Any of these factors could lead to a need for us to raise additional capital.

We are required to conduct additional confirmatory phase 3 post-approval studies of ADCETRIS as part of our regulatory approvals. These are large studies that will be conducted over a lengthy period of time and although we have commenced these studies, based on the expected length of these studies and the inherent uncertainty of clinical trial costs, we may be required to raise additional capital in order to complete the studies. In this regard, whether we have sufficient funding to complete these studies will be partially dependent upon cash received from sales of ADCETRIS, which may not be sufficient to complete these studies. Our inability to obtain funds sufficient to complete these studies and establish confirmatory evidence of efficacy for ADCETRIS may have material adverse consequences to us, including the loss of marketing approval for ADCETRIS. These required post-approval studies will also significantly increase our clinical trial expenses, which could increase our losses and/or negatively impact our ability to achieve or maintain profitability.

We expect to make additional capital outlays and to increase operating expenditures over the next several years as we hire additional employees and support our preclinical development, manufacturing and clinical trial activities, including the post-approval studies we must conduct for ADCETRIS, as well as position ADCETRIS for potential additional regulatory approvals, and we may therefore need to raise significant amounts of additional capital. We may seek additional funding through some or all of the following methods: corporate collaborations, licensing arrangements and public or private debt or equity financings. We do not know whether additional capital will be available when needed, or that, if available, we will obtain financing on terms favorable to us or our stockholders. If we are unable to raise additional funds when we need them, we may be required to delay, reduce the scope of, or eliminate one or more of our development programs, which may adversely affect our business and operations.

Commitments

Our future minimum contractual commitments were reported in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC. There have been no material changes from the contractual commitments previously disclosed in that Annual Report on Form 10-K.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risk for changes in interest rates during the six months ended June 30, 2013 has not changed significantly from those discussed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We had holdings in U.S. Treasury securities totaling $310.5 million and $309.6 million as of June 30, 2013 and December 31, 2012, respectively.

We have estimated the effect on our investment portfolio of a hypothetical increase in interest rates by one percent to be a reduction of $1.0 million in the fair value of our investments as of June 30, 2013. In addition, a hypothetical decrease of 10% in the effective yield of our investments would reduce our expected investment income by less than $0.1 million over the next twelve months based on our investment balance at June 30, 2013.

Foreign Currency Risk

Most of our revenues and expenses are denominated in U.S. dollars and as a result, we have not experienced significant foreign currency transaction gains and losses to date. Our commercial sales in Canada are denominated in Canadian Dollars. We also had other transactions denominated in foreign currencies during the six months ended June 30, 2013, primarily related to contract manufacturing and ex-U.S. clinical trial activities, and we expect to continue to do so. Our primary exposure is to fluctuations in the Euro, British Pound and Canadian Dollar. We do not anticipate that foreign currency transaction gains or losses will be significant at our current level of operations. However, transaction gains or losses may become significant in the future as we continue to expand our operations internationally. We have not engaged in foreign currency hedging to date; however, we may do so in the future.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) prior to the filing of this quarterly report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were, in design and operation, effective.

(b) *Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

You should carefully consider the following risk factors, in addition to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. If any of the events described in the following risk factors occurs, our business, operating results and financial condition could be seriously harmed. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Quarterly Report on Form 10-Q.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC.

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Risks Related to Our Business

Our near-term prospects are substantially dependent on ADCETRIS. If we and/or Millennium are unable to successfully commercialize ADCETRIS for the treatment of patients in its approved indications and to expand its labeled indications of use, our ability to generate significant revenue or achieve profitability will be adversely affected. *

ADCETRIS® (brentuximab vedotin), our only marketed product, received accelerated approval in the United States in August 2011 and approval with conditions in Canada in February 2013 for patients with relapsed Hodgkin lymphoma or relapsed systemic anaplastic large cell lymphoma, or sALCL. ADCETRIS is our only product approved for marketing and our ability to generate revenue from product sales and achieve profitability is substantially dependent on our ability to successfully commercialize ADCETRIS for the treatment of patients in its two approved indications and to expand its labeled indications of use. We may not be able to fully realize the commercial potential of ADCETRIS for a number of reasons, including:

- the market penetration rate of ADCETRIS may be lower, or the duration of therapy in patients in ADCETRIS approved indications may be shorter, than our projections;
- we may not be able to establish or demonstrate in the medical community the safety and efficacy of ADCETRIS and its potential advantages over and side effects compared to existing and future therapeutics;
- physicians may be reluctant to prescribe ADCETRIS until results from our required post-approval studies are available or other long term efficacy and safety data exists;
- we may not be able to obtain and maintain any regulatory approvals to market ADCETRIS for any additional indications;
- the estimated incidence rate of patients in ADCETRIS approved indications may be lower than our projections;
- results from our required post-approval studies may fail to verify the clinical benefit of ADCETRIS in some or all of its approved indications, which could result in the withdrawal of ADCETRIS from the market;
- adverse results or events reported in any of the clinical trials that we and/or Millennium are conducting or may in the future conduct for ADCETRIS;

25,294		25,294	1,229,288			
Samuel D. Bush	November 28, 2016			2,798	2,798	135,983
Warren S. Lada	November 28, 2016			3,128	3,128	152,021
Marcia K. Lobaito	November 28, 2016			1,687	1,687	81,988
Catherine A. Bobinski	November 28, 2016			1,481	1,481	71,977

(1) The table shows the potential amounts which could have been earned in 2016 if the performance goals were achieved at the minimum threshold, 100% of target 1, 100% of target 2, and at maximum bonus. Mr. Christian satisfied the maximum award. See Bonuses under Compensation Discussion and Analysis and the 2016 CEO and Executive Officer Compensation sections of this proxy statement.

(2) The table shows the potential number of shares which could be earned on the grant of restricted stock which vest in one-third increments on November 6, 2017, 2018, and 2019, if the reporting person is an employee on the applicable date. All such restricted stock, however, shall vest if the reporting person is an employee on the occurrence or deemed occurrence of a change-in-control. All restricted stock awards comprise Class A Common Stock, except that the restricted stock awarded to Mr. Christian comprises Class B Common Stock. See Long Term Incentives under Compensation Discussion and Analysis and the 2016 CEO and Executive Officer Compensation sections of this proxy statement. There were no grants of options in 2016.

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Outstanding Equity Awards at Fiscal Year-End

The following table provides information as of December 31, 2016 regarding unexercised options and restricted stock that has not vested for each named executive officer outstanding as of December 31, 2016:

Outstanding Equity Awards at Fiscal Year-End Table

	Option Awards[1]				Stock Awards[2]	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)[3]
Edward K. Christian						
05/18/2007	8,226		$ 28.47	5/18/2017		$
12/4/2014			$		10,038	$ 504,911
11/13/2015			$		19,656	$ 988,697
11/28/2016			$		25,294	$ 1,272,288
Samuel D. Bush						
05/18/2007	4,610		$ 28.47	5/18/2017		$
12/4/2014			$		1,155	$ 58,097
11/13/2015			$		2,261	$ 113,728
11/28/2016			$		2,798	$ 140,739
Warren S. Lada						
05/18/2007	4,610		$ 28.47	5/18/2017		$
12/4/2014			$		1,294	$ 65,088
11/13/2015			$		2,527	$ 127,108
11/28/2016			$		3,128	$ 157,338
Marcia K. Lobaito						
05/18/2007	2,246		$ 28.47	5/18/2017		$
12/4/2014			$		836	$ 42,051
11/13/2015			$		1,363	$ 68,559
11/28/2016			$		1,687	$ 84,856
Catherine A. Bobinski						
05/18/2007	2,157		$ 28.47	5/18/2017		$
12/4/2014			$		577	$ 29,023
11/13/2015			$		1,197	$ 60,209
11/28/2016			$		1,481	$ 74,494

(1) Option awards vest March 1 of each year for the five years following the date of the award, 20% per year. All stock option awards comprise Class A Common Stock, except that the stock options awarded to Mr. Christian comprise Class B Common Stock.

(2) Restricted stock awarded on December 4, 2014 vest in one-third increments on November 6, 2015, 2016, and 2017, if the reporting person is an employee on the applicable date. Restricted stock awarded on November 13, 2015 vest in one-third increments on November 6, 2016, 2017, and 2018, if the reporting person is an employee on the applicable date. Restricted stock awarded on November 28, 2016 vest in one-third increments on November 6, 2017, 2018, and 2019, if the reporting person is an employee on the applicable date. All such restricted stock, however, shall vest if the reporting person is an employee on the occurrence or deemed occurrence of a change-in-control. All restricted stock awards comprise Class A Common Stock, except that the restricted stock awarded to Mr. Christian comprises Class B Common Stock.

(3) The closing price of our Class A Common Stock on the NYSE MKT on December 30, 2016 (the last business day of the fiscal year) was $50.30 per share.

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Option Exercises and Stock Vested

The following table sets forth the options exercised by the named executive officers listed below in 2016 and the restricted stock of the executive officers listed below which vested during the year ended December 31, 2016.

2016 Option Exercises and Stock Vested Table

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[1]
Edward K. Christian			26,411	$ 1,057,761
Samuel D. Bush			3,231	$ 129,402
Warren S. Lada			3,619	$ 144,941
Marcia K. Lobaito			2,076	$ 83,144
Catherine A. Bobinski			1,649	$ 66,042

(1) The value realized on vesting is obtained by multiplying the number of shares of restricted stock which have vested during the year ended December 31, 2016 by the closing price of the Class A Common Stock on the last trading date immediately preceding the vesting date (which vesting date, November 6, 2016, fell on a weekend day). Mr. Christian receives restricted shares of Class B Common Stock.

Nonqualified Deferred Compensation

In 1999 and 2005, we established nonqualified deferred compensation plans which allow executive officers and certain employees to annually elect, prior to January 1 of the calendar year in which the base salary or bonus is earned, to defer a portion of their base salary up to 15% (but not less than $2,500), and up to 85% of any bonus, on a pre-tax basis, until their retirement. The deferred amounts are invested in investment options offered under the plans. The Company may, in its discretion, purchase policies of life insurance on the lives of the participants to assist the Company in paying the deferred compensation under the plans. The Company has created model trusts to assist it in meeting its obligations under the plans. All investment assets under the plans are the property of the Company until distributed. The retirement benefit to be provided is based on the amount of compensation deferred and any earnings thereon. The 2005 plan is substantially identical to the 1999 plan except for certain modifications to comply with Section 409A of the Code. Any contributions made after 2004 are made pursuant to the 2005 deferred compensation plan.

Under the plans, upon termination of the executive officer s employment with the Company, he or she will be entitled to receive all amounts credited to his or her account, in one lump sum. For amounts deferred prior to January 1, 2005, under the 1999 deferred compensation plan, upon a participant s death if the Company has purchased life insurance, the benefit payable shall equal the value of the participant s account multiplied by 1.5. Under the 2005 deferred compensation plan, upon a participant s death, if the Company has purchased a life insurance policy on the life of a participant, the benefit payable shall equal the value of the participant s account multiplied by 1.5, but the incremental increase to such account shall not exceed $150,000. Upon a change-in-control of the Company, each participant shall

be distributed all amounts credited to his or her account in a lump sum. Mr. Christian does not participate in the plans.

Nonqualified Deferred Compensation Table

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings (Loss) in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
Edward K. Christian	$	$	$	$	$
Samuel D. Bush	$ 17,000	$	$ 24,037	$	$ 245,519
Warren S. Lada	$	$	$ 49,595	$	$ 595,175
Marcia K. Lobaito	$ 32,500	$	$ 36,729	$	$ 326,476
Catherine A. Bobinski	$ 13,500	$	$ 1,086	$	$ 309,280

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Employment Agreement and Potential Payments Upon Termination or Change-in-Control

CEO s Employment Agreement

On February 12, 2016, we entered into the amended 2011 employment agreement with Mr. Christian. The amended 2011 employment agreement extends Mr. Christian s employment with the Company to March 31, 2021. The 2011 employment agreement would have terminated on March 31, 2018. Pursuant to the amended 2011 employment agreement, we pay Mr. Christian a salary at the rate of $860,000 per year, adjusted as discussed in the next paragraph below. The amended 2011 employment agreement permits Mr. Christian to defer any or all of his annual salary. Additionally, the amended 2011 employment agreement authorizes the Company to pay for Mr. Christian s tax preparation services on an annual basis, the amount of which will be subject to income tax as additional compensation.

Pursuant to the 2011 employment agreement, commencing on June 1, 2012, and each anniversary thereafter, the Compensation Committee is required to determine in its discretion the amount of any increase in Mr. Christian s then existing annual salary provided, however, that such increase shall not be less than the greater of 3% or a cost of living increase based on the consumer price index. Pursuant to the amended 2011 employment agreement, however, such increase in Mr. Christian s then existing salary shall not be less than the greater of 4% or a cost of living increase based on the consumer price index. The amended 2011 employment agreement also includes a provision providing for a bonus to be awarded to Mr. Christian at the discretion of the Board.

The amended 2011 employment agreement also provides that Mr. Christian is eligible for stock options as shall be approved by the Compensation Committee and bonuses in such amounts as shall be determined pursuant to the terms of the CEO Plan or as otherwise determined by the Compensation Committee in its discretion based on the performance of the Company and the accomplishments of objectives established by the Compensation Committee in consultation with Mr. Christian.

Under the amended 2011 employment agreement, Mr. Christian is eligible to participate, in accordance with their terms, in all medical and health plans, life insurance, profit sharing, 401(k) Plan, pension, and such other employment benefits as are maintained by the Company or its affiliates for other key employees performing services. During the term of the employment agreement, the Company is required to maintain all existing policies of insurance on Mr. Christian s life, including the existing split dollar policy. The Company is also required to pay for Mr. Christian to participate in an executive medical plan and to maintain its existing medical reimbursement policy. Under the amended 2011 employment agreement, Mr. Christian is also furnished with an automobile and other fringe benefits as have been afforded him in the past or as were consistent with his position. In addition, under the amended 2011 employment agreement, the Company has agreed to maintain an office for Mr. Christian in Sarasota County, Florida. The 2016 amendment increases the paid vacation time awarded to Mr. Christian on the anniversary date of the 2011 employment agreement. Under the terms of the 2011 employment agreement, Mr. Christian had been entitled to four weeks of paid vacation. The amended 2011 employment agreement entitles Mr. Christian to six weeks of paid vacation.

The amended 2011 employment agreement terminates upon Mr. Christian s death and can be terminated by either party in the event of Mr. Christian s disability for a continuous period of eight months, or an aggregate period of twelve months within any eighteen month period. The amended 2011 employment agreement also provides for certain payments to Mr. Christian in the event of his death or disability. Under the amended 2011 employment agreement, in

the event of Mr. Christian s death, his estate receives his then current base salary and any previously granted award becomes immediately vested. In the event of disability under the amended 2011 employment agreement, Mr. Christian receives the accrued portion of any salary and bonus, and severance pay equal to 100% of his then base salary for twenty-four months. Whereas, in the event of disability under the 2011 employment agreement, Mr. Christian was entitled to receive such pay for fifteen months. In addition, under the amended 2011 employment agreement, after the date of termination in the event of disability, any unvested stock options previously granted to Mr. Christian by the Company become immediately 100% vested to the extent permitted by law. Under the 2011 employment agreement, after such date, any previously granted award (whether in the form of unvested stock options or restricted stock) became immediately 100% vested to the extent permitted by law.

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In addition, under the amended 2011 employment agreement, by a majority vote of the independent directors, we could terminate the agreement for cause. For cause means conviction of a felony, willful misconduct, gross neglect of duty, material breach of fiduciary duty to the Company, or material breach of the employment agreement. The amended 2011 employment agreement also provides that upon our sale, or transfer of control of, all or substantially all of the assets or stock of the Company or the consummation of a merger or consolidation involving the Company in which the Company is not the surviving corporation, Mr. Christian will be paid an amount equal to 2.99 times the average of his total annual salary and bonus for the three immediately preceding periods of twelve consecutive months plus an additional amount as is necessary for applicable income taxes related to the payment under Code sections 280 and 4999 and all federal and state tax liabilities. Mr. Christian has the right to terminate at any time following a change-in-control. The amended 2011 employment agreement also provides that to the extent that any payments under the amended 2011 employment agreement would be subject to the excise tax imposed by Section 4999 and interest or penalties, Mr. Christian would be entitled to an additional payment to cover such excise tax, interest or penalties. Also, pursuant to the amended 2011 employment agreement, if Mr. Christian s employment is terminated for any reason, including death or voluntary resignation but not a for cause termination, we are required to continue to provide health insurance and medical reimbursement to Mr. Christian and his spouse and to maintain and enforce all existing life insurance policies for a period of ten years.

The amended 2011 employment agreement also contains a covenant not to compete pursuant to which Mr. Christian agrees that if he voluntarily terminates his employment with the Company or is terminated for cause, for a three year period, he will not, directly or indirectly, own, manage, operate, control, or be employed by, any radio or television station the primary transmitter of which is located within sixty-five miles of the community license of a radio or television station (i) then operated by the Company or any of its subsidiaries, or (ii) then subject to a sale or purchase contract to which the Company or any subsidiary is a party.

Change-in-Control Agreements

As of December 28, 2007, Mr. Bush, Mr. Lada, Ms. Lobaito, and Ms. Bobinski entered into change-in-control agreements. A change-in-control is defined to mean the occurrence of: (a) any person or group becoming the beneficial owner, directly or indirectly, of more than 30% of the combined voting power of the Company s then outstanding securities and Mr. Christian ceasing to be Chairman and CEO of the Company; (b) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto continuing to represent more than 50% of the combined voting securities of the Company or such surviving entity; or (c) the approval of the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

If there is a change-in-control, the Company shall pay a lump sum payment within forty-five days thereof of 1.5 times the average of the executive s last three full calendar years of such executive s base salary and any annual cash bonus paid. In the event that such payment constitutes a parachute payment within the meaning of Section 280G subject to an excise tax imposed by Section 4999 of the Code, the Company shall pay the executive an additional amount so that the executive will receive the entire amount of the lump sum payment before deduction for federal, state and local income tax and payroll tax. In the event of a change-in-control (other than the approval of a plan of liquidation), the Company or the surviving entity may require as a condition to receipt of payment that the executive continue in employment for a period of up to six months after consummation of the change-in-control. During such six months, the executive will continue to earn his or her pre-existing salary and benefits. In such case, the executive shall be paid the lump sum payment upon completion of the continued employment. If, however, the executive fails to remain employed during this period of continued employment for any reason other than (a) termination without cause by the

Company or the surviving entity, (b) death, (c) disability, or (d) breach of the agreement by the Company or the surviving entity, then the executive shall not be paid the lump sum payment. In addition, if the executive s employment is terminated by the Company without cause within six months prior to the consummation of a change-in-control, then the executive shall be paid the lump sum payment within forty-five days of such change-in-control. Termination for cause means: (a) willful dishonesty involving the Company, excluding good faith expense account disputes; (b) conviction of or entering of a no contest plea to a felony or other crime

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involving material dishonesty or moral turpitude; (c) material failure or refusal to perform the executive s duties or other lawful directive from the CEO or Board which is not cured by the executive within ten days after receipt by executive of a written notice from the Company specifying the details thereof; (d) willful violation by the executive of the Company s lawful policies or of the executive s fiduciary duties, which violation is not cured by the executive within ten days after receipt by the executive of a written notice from the Company specifying the details thereof; (e) the executive s willful violation of the Company s published business conduct guidelines, code of ethics, conflict of interest, or similar policies; or (f) illegal drug or substance abuse or addiction by the executive which is not protected by law.

Under the form of stock option agreement made and entered into pursuant to the 2005 Incentive Compensation Plan, all options become fully vested and exercisable in full upon the occurrence of a change-in-control as defined in the 2005 Incentive Compensation Plan or if the Compensation Committee determines that a change-in-control has occurred, if the optionee is an employee at the time of such occurrence. Similarly, under the form of restricted stock agreement adopted under the 2005 Incentive Compensation Plan, the vesting or restricting period shall lapse with respect to all restricted stock upon the occurrence of a change-in-control, as defined in the 2005 Incentive Compensation Plan, or if the Compensation Committee determines that a change-in-control has occurred if the grantee of the restricted stock is an employee at the time of such occurrence.

Under the Company s 1999 and 2005 deferred compensation plans**,** in which Mr. Christian does not participate, upon a change-in-control of the Company as defined in such plans, each participant shall be distributed all amounts credited to the account of the participant in a lump sum.

The following tables show the estimated payments and benefits to the CEO (under the terms of the amended 2011 employment agreement) and the other named executive officers in the event of a change-in-control, upon retirement, upon termination other than retirement or death, and upon death assuming the trigger event occurred on December 30, 2016 (the last business day of the fiscal year), and the number of options and shares of restricted stock and the price per share, as applicable, which is the closing price on December 30, 2016:

(1) 2.99 times three year average annual salary and bonus, grossed up for applicable taxes.

(2) 1.5 times three year average annual salary and bonus.

(3) $50,000 annual premium for split dollar life insurance policy under the CEO s amended 2011 employment agreement for ten years.

(4) $750,000 life insurance policy for CEO under the CEO s amended 2011 employment agreement for ten years estimated at $38,250 per year.

(5) Health insurance premiums for CEO and spouse under the CEO s amended 2011 employment agreement for ten years estimated at $8,000 per year.

(6) Medical reimbursement for CEO and spouse under the CEO s amended 2011 employment agreement for ten years estimated at $14,116 per year.

(7) Participant distributed account balance in a lump sum.

(8) All unvested units of restricted stock become fully vested.

(9) All vested stock options that are in the money are valued at their closing price less their exercise price.

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(10) All rights in the policy are assigned to the insured upon change-in-control (cash surrender value of policy).

(11) Unused vacation accrues and rolls over to successive years.

Retirement upon age 65

	Health Insurance Premiums[1]	Medical Reimbursement[2]	Account Balance Non-Qualified Plan[3]	Stock Options[4]	CSV of Split Dollar Policy[5]	Accrued Vacation[6]	Total Retirement Payments
Edward K. Christian	$80,000	$141,160	$	$179,574	$686,112	$232,531	$1,319,377
Samuel D. Bush	$	$	$245,519	$100,636	$168,359	$	$514,514
Warren S. Lada	$	$	$595,175	$100,636	$200,234	$	$896,045
Marcia K. Lobaito	$	$	$326,476	$49,030	$173,051	$	$548,557
Catherine A. Bobinski	$	$	$309,279	$47,087	$130,730	$	$487,096
Total	$80,000	$141,160	$1,476,449	$476,963	$1,358,486	$232,531	$3,765,589

(1) Health insurance premiums for CEO and spouse under the CEO s amended 2011 employment agreement for ten years estimated at $8,000 per year.

(2) Medical reimbursement for CEO and spouse under the CEO s amended 2011 employment agreement for ten years estimated at $14,116 per year.

(3) Participant distributed account balance in a lump sum.

(4) All vested stock options that are in the money are valued at their closing price less their exercise price.

(5) All rights in the policy are assigned to the insured upon change-in-control or separation from retirement at age 65 (cash surrender value of policy).

(6) Unused vacation accrues and rolls over to successive years.

Termination other Than Retirement, Death or Disability

	Health Insurance Premiums[1]	Medical Reimbursement[2]	Account Balance Non-Qualified Plan[3]	Stock Options[4]	Accrued Vacation[5]	Total Termination Payments
Edward K. Christian	$ 80,000	$ 141,160	$	$179,574	$232,531	$633,265
Samuel D. Bush	$	$	$245,519	$100,636	$	$346,155
Warren S. Lada	$	$	$595,175	$100,636	$	$695,811
Marcia K. Lobaito	$	$	$326,476	$49,030	$	$375,506
Catherine A. Bobinski	$	$	$309,279	$47,087	$	$356,366
Total	$ 80,000	$ 141,160	$1,476,449	$476,963	$232,531	$2,407,103

(1) Health insurance premiums for CEO and spouse under the CEO s amended 2011 employment agreement for ten years at $8,000 per year.

(2) Medical reimbursement for CEO and spouse under the CEO s amended 2011 employment agreement for ten years at $14,116 per year.

(3) Participant distributed account balance in a lump sum.

(4) All vested stock options that are in the money are valued at their closing price less their exercise price.

(5) Unused vacation accrues and rolls over to successive years.

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(1) The Company shall pay to the legal representative of Mr. Christian s estate a lump sum payment equal to Mr. Christian s then base salary.

(2) Health insurance premiums for CEO s spouse under the CEO s amended 2011 employment agreement for ten years estimated at $4,000 per year.

(3) Medical reimbursement for CEO s spouse under the CEO s amended 2011 employment agreement for ten years estimated at $7,058 per year.

(4) Participant distributed 1.5 times account balance of amounts deferred prior to 2005 and up to a limit of $150,000 of amounts deferred after 2004.

(5) All unvested units of restricted stock become fully vested.

(6) All vested stock options that are in the money are valued at their closing price less their exercise price.

(7) Beneficiary receives face value of policy plus accumulation value (cash surrender value less premiums paid by employer). All policies accumulation value is zero at December 30, 2016. The CEO policy insures CEO and spouse for $7,000,000 and is paid out upon death of both spouses to successors.

(8) Unused vacation accrues and rolls over to successive years.

Termination Due to Disability

	CEO Employment Agreement Salary & Bonus[1]	Health Insurance Premiums[2]	Medical Reimbursement[3]	Account Balance Non-Qualified Plan[4]	Restricted Stock	Stock Options[5]	Accrued Vacation[6]	Total Disability Payments
Edward K. Christian	$2,015,264	$80,000	$141,160	$	$2,765,896	$179,574	$232,531	$5,414,425
Samuel D. Bush	$	$	$	$245,519	$	$100,636	$	$346,155
Warren S. Lada	$	$	$	$595,175	$	$100,636	$	$695,811
Marcia K. Lobaito	$	$	$	$326,476	$	$49,030	$	$375,506
Catherine A. Bobinski	$	$	$	$309,279	$	$47,087	$	$356,366
Total	$2,015,264	$80,000	$141,160	$1,476,449	$2,765,896	$476,963	$232,531	$7,188,263

(1) In the event CEO suffers a disability, upon termination, CEO shall receive 100% of his then base salary for twenty-four months.

(2) Health insurance premiums for CEO and spouse under the CEO s amended 2011 employment agreement for ten years estimated at $8,000 per year.

(3) Medical reimbursement for CEO and spouse under the CEO s amended 2011 employment agreement for ten years estimated at $14,116 per year.

(4) Participant distributed account balance in a lump sum.

(5) All vested stock options that are in the money are valued at their closing price less their exercise price.

(6) Unused vacation accrues and rolls over to successive years.

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COMPENSATION OF DIRECTORS

Each director who is not an employee receives an annual cash retainer of $34,000. Chairpersons of each committee who are not employees receive an additional annual cash retainer of $9,500. The Lead Director receives an additional annual cash retainer of $25,000. The retainers are paid quarterly. All directors who are not employees are required to hold and maintain 1,250 shares of the Company s Class A Common Stock. Such directors are required to achieve this guideline within five years of joining the Board, or in the case of such directors serving at the time the guidelines were adopted, within five years of the date of the adoption of the guideline.

Directors may elect to pay out-of-pocket for health insurance benefits currently offered by the Company to its employees under its self-insured program. In the alternative, directors may elect to have part of their annual retainer used to pay for such benefits. Directors are also permitted to take into income the value of the health insurance benefit.

2016 Director Compensation Table

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	All Other Compensation ($)		Total ($)
Clarke R. Brown, Jr.	$ 34,000	$ 21,092	$		$ 55,092
Timothy J. Clarke	$ 34,000	$ 21,092	$		$ 55,092
Roy F. Coppedge III	$ 34,000	$ 21,092	$		$ 55,092
David B. Stephens[2]	$ 43,500	$ 26,973	$ 415	[3]	$ 70,888
Gary G. Stevens[4]	$ 68,500	$ 42,476	$ 11,643	[3]	$ 122,619

(1) All stock awards comprise grants of Class A Common Restricted Stock which vest in one-third increments on November 6, 2017, 2018, and 2019, if the reporting person is a director on the applicable date. All such restricted stock, however, shall vest if the reporting person is a director on the occurrence or deemed occurrence of a change-in-control. Stock award values are calculated based on the closing price of our Class A Common Stock on the NYSE MKT on November 28, 2016 ($48.60 per share).

(2) Chairman of Finance and Audit Committee.

(3) Value of health insurance provided to Messrs. Stephens and Stevens.

(4) Chairman of Compensation Committee, Lead Director.

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CERTAIN BUSINESS RELATIONSHIPS AND TRANSACTIONS WITH DIRECTORS AND MANAGEMENT

Policy

Pursuant to our written Corporate Governance Guidelines, the Finance and Audit Committee is required to conduct a review of all related party transactions for potential conflicts of interest. All such transactions must be approved by the Finance and Audit Committee. To the extent such transactions are on-going business relationships with the Company, such transactions are reviewed annually and such relationships shall be on terms not materially less favorable than would be usual and customary in similar transactions between unrelated persons dealing at arm s-length.

Related Party Transactions

Surtsey Media, LLC (Surtsey Media), a wholly-owned subsidiary of Surtsey Productions, Inc. (Surtsey Productions), owns the assets of television station KVCT in Victoria, Texas. Surtsey Productions is a multi-media company 100%-owned by the daughter of Mr. Christian, our President, CEO and Chairman. We operate KVCT under a Time Brokerage Agreement (TBA) with Surtsey Media which we entered into in May 1999 with Surtsey Productions. Under the Federal Communications Commission s (FCC) ownership rules, we are prohibited from owning or having an attributable or cognizable interest in this station. In January 2012, the TBA was amended (amended TBA). Pursuant to the amendment, (i) the term was extended nine years commencing from June 1, 2013, with rights to extend for two additional eight year terms, (ii) we paid Surtsey Productions an extension fee of $27,950 upon execution of the amendment, (iii) the monthly fees payable to Surtsey Media were increased for each extension period, and (iv) we have an exclusive option, while the TBA is in effect, to purchase all of the assets of station KVCT, subject to certain conditions, based on a formula. This option is freely assignable by us, without the necessity of obtaining the consent of Surtsey Productions or Surtsey Media. Under the amended TBA, during 2016, 2015, and 2014, we paid Surtsey Media fees of approximately $3,900, $3,800, and $3,600 per month, respectively, plus accounting fees and reimbursement of expenses actually incurred in operating the station.

In March 2002, we entered into an agreement of understanding with Surtsey Productions pursuant to which, in March 2003, we guaranteed up to $1,250,000 of the debt incurred by Surtsey Productions in closing the acquisition of a construction permit for KFJX-TV station in Pittsburg, Kansas, a full power Fox affiliate serving Joplin, Missouri. The debt was taken over by Surtsey Media in March 2004. At December 31, 2016, there was $1,078,000 of debt outstanding under this agreement. We do not have any recourse provision in connection with our guarantee that would enable us to recover any amounts paid under the guarantee. As a result, at December 31, 2016, we have recorded $1,078,000 in debt and $1,000,000 in intangible assets, primarily broadcast licenses. In consideration for the guarantee, we entered into various agreements relating to the station, including a shared services agreement, technical services agreement, agreement for the sale of commercial time and broker agreement (the Station Agreements). The station went on the air for the first time on October 18, 2003. Under the FCC s ownership rules we are prohibited from owning or having an attributable or cognizable interest in this station. In January 2012, the Station Agreements were amended (amended Station Agreements). Pursuant to the amended Station Agreements, (i) the Broker Agreement and the Technical Services Agreement were terminated, (ii) the terms of the continuing Station Agreements were extended nine years commencing from June 1, 2013, with rights to extend for two additional eight year terms, (iii) we paid Surtsey Productions $37,050 upon execution of the amendment, (iv) the monthly fees payable to Surtsey Media were

increased for each extension period, and (v) we have an exclusive option, while the agreement for the sale of commercial time and shared services agreement are in effect, to purchase all of the assets of Station KFJX subject to certain conditions, based on a formula, together with a payment of $1.2 million. This option is freely assignable by us, without the necessity of obtaining the consent of Surtsey Productions or Surtsey Media. Under the amended Station Agreements, during 2016, 2015, and 2014, we paid Surtsey Media fees of approximately $5,100, $5,000, and $4,800 per month, respectively, plus accounting fees and reimbursement of expenses actually incurred in operating the station. We generally prepay Surtsey Media quarterly for its estimated expenses.

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Surtsey Productions leases office space in a building owned by us and paid us rent of approximately $6,000, $6,000, and $6,000 during the years ended December 31, 2016, 2015, and 2014, respectively. In January 2012, the lease was amended primarily to extend the term nine years commencing from June 1, 2013, with rights to extend for two additional eight year terms.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires certain of our officers, our directors, and persons who own more than 10% of a registered class of our equity securities (insiders), to file reports of ownership and changes in ownership with the SEC. Insiders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such reports received by us, or written representations from certain reporting persons that no reports on Form 5 were required for those persons for the year 2016, we believe that our officers and directors complied with all applicable reporting requirements for the year 2016.

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OTHER MATTERS

Management does not know of any matters which will be brought before the Annual Meeting other than those specified in the notice thereof. However, if any other matters properly come before the Annual Meeting, it is intended that the persons named in the form of proxy, or their substitutes acting thereunder, will vote thereon in accordance with their best judgment.

STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS FOR ANNUAL MEETINGS

Stockholder proposals that are intended to be presented at our 2018 Annual Meeting of Stockholders must be received at our offices, 73 Kercheval Avenue, Grosse Pointe Farms, Michigan 48236, no later than December 19, 2017, to be considered for inclusion in our proxy statement and proxy card relating to that meeting. Stockholder proposals which are not to be included in our proxy statement for the 2018 Annual Meeting of Stockholders and stockholder nominations of persons for election to the Board must be submitted in accordance with our bylaws, which set forth the information that must be received no later than February 7, 2018 (with respect to proposals) and February 13, 2018 (with respect to nominations). All proposals and nominations should be directed to the corporate Secretary, and should be sent by certified mail, return receipt requested in order to avoid confusion regarding dates of receipt. We expect the persons named as proxies for the 2017 Annual Meeting of Stockholders to use their discretionary voting authority, to the extent permitted by law, with respect to any proposal or nomination presented by a stockholder at the 2017 Annual Meeting of Stockholders.

EXPENSE OF SOLICITING PROXIES

All the expenses of preparing, assembling, printing, and mailing the material used in the solicitation of proxies by the Board will be paid by us. In addition to the solicitation of proxies by use of the mails, our officers and regular employees may solicit proxies on behalf of the Board by telephone, telegram, or personal interview, the expenses of which will be borne by us. Arrangements may also be made with brokerage houses and other custodians, nominees, and fiduciaries to forward soliciting materials to the beneficial owners of stock held of record by such persons at our expense.

By Order of the Board of Directors

MARCIA LOBAITO
Secretary

Grosse Pointe Farms, Michigan
April 18, 2017

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