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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

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)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

As of October 31, 2002, there were 30,689,477 shares of the registrant's Common Stock outstanding.

Seattle Genetics, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Seattle Genetics, Inc.
Balance Sheets
(Unaudited)

	September 30, 2002	December 31, 2001
Assets		
Current assets		
Cash and cash equivalents	$ 8,895,913	$ 8,293,504
Short-term investments	22,001,068	33,624,723
Interest receivable	494,006	724,953
Accounts receivable	128,085	81,603
Prepaid expenses and other current assets	717,237	477,782
Total current assets	32,236,309	43,202,565
Property and equipment, net	6,282,352	6,350,450
Restricted investments	1,000,758	982,002
Long-term investments	18,426,069	12,456,820
Other assets	36,406	36,406
Total assets	$ 57,981,894	$ 63,028,243
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 561,395	$ 895,536
Accrued liabilities	1,821,669	1,012,181
Deferred revenue	1,100,000	141,667
Total current liabilities	3,483,064	2,049,384
Deferred rent	231,808	107,052
Deferred revenue, net of current portion	2,265,278	200,694
Total long-term liabilities	2,497,086	307,746
Stockholders' equity		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 30,688,310 and 29,322,741 issued and outstanding, respectively	30,688	29,323
Additional paid-in capital	105,254,363	98,484,346
Notes receivable from stockholders	(271,533)	(271,533)
Deferred stock compensation	(2,517,276)	(4,688,507)
Accumulated other comprehensive income	307,155	572,980
Accumulated deficit	(50,801,653)	(33,455,496)
Total stockholders' equity	52,001,744	60,671,113
Total liabilities and stockholders' equity	$ 57,981,894	$ 63,028,243

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

Seattle Genetics, Inc.
Statements of Operations
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Revenues				
Collaboration and license agreements	$ 392,728	$ 59,307	$ 944,904	$ 93,891
Government grants	11,978	11,024	104,479	11,024
Total revenues	404,706	70,331	1,049,383	104,915
Operating expenses				
Research and development (excludes non-cash stock-based compensation expense of $144,487 $409,938, $729,863 and $1,439,969, respectively)	4,296,664	5,093,631	14,464,167	11,468,735
General and administrative (excludes non-cash stock-based compensation expense of $444,319 $815,732, $1,566,239 and $2,707,783, respectively)	1,093,313	787,105	3,253,518	2,344,606
Non-cash stock-based compensation expense	588,806	1,225,670	2,296,102	4,147,752
Total operating expenses	5,978,783	7,106,406	20,013,787	17,961,093
Loss from operations	(5,574,077)	(7,036,075)	(18,964,404)	(17,856,178)
Investment income, net	485,941	800,372	1,618,247	2,264,201
Net loss	(5,088,136)	(6,235,703)	(17,346,157)	(15,591,977)
Accretion on mandatorily redeemable preferred stock	—	—	—	(3,295)
Net loss attributable to common stockholders	$ (5,088,136)	$ (6,235,703)	$ (17,346,157)	$ (15,595,272)
Basic and diluted net loss per share	$ (0.17)	$ (0.22)	$ (0.58)	$ (0.70)
Weighted-average shares used in computing basic and diluted net loss per share	30,395,760	28,781,416	30,032,631	22,300,257

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

Seattle Genetics, Inc.
Statements of Cash Flows
(Unaudited)

	Nine months ended September 30,	
	2002	**2001**
Operating activities		
Net loss	$ (17,346,157)	$ (15,591,977)
Adjustments to reconcile net loss to net cash used in operating activities		
Stock-based compensation expense	2,296,102	4,147,752
Depreciation and amortization	896,556	334,020
Loss (gain) on disposal of property and equipment	234	(38,534)
Realized (gain) loss on sale of investments	(3,100)	22,214
Amortization on investments	554,058	351,235
Deferred rent	124,756	61,173
Changes in operating assets and liabilities		
Interest receivable	230,947	(661,338)
Accounts receivable	(46,482)	—
Prepaid expenses and other current assets	(239,455)	(208,162)
Accounts payable	252,902	638,299
Accrued liabilities	809,488	1,020,262
Deferred revenue	3,022,917	377,778
Net cash used in operating activities	(9,447,234)	(9,547,278)
Investing activities		
Purchases of investments	(20,336,638)	(51,276,956)
Proceeds from sale and maturities of investments	25,155,505	21,091,043
Purchases of property and equipment	(1,415,735)	(4,850,164)
Proceeds from disposal of property and equipment	—	75,000
Net cash provided by (used in) investing activities	3,403,132	(34,961,077)
Financing activities		
Net proceeds from issuance of common stock	6,646,511	47,037,742
Collection of notes receivable	—	21,251
Net cash provided by financing activities	6,646,511	47,058,993
Net increase in cash and cash equivalents	602,409	2,550,638
Cash and cash equivalents, at beginning of period	8,293,504	2,618,986
Cash and cash equivalents, at end of period	$ 8,895,913	$ 5,169,624
Supplemental disclosure of cash flow information		
Non-cash investing and financing activities		
Conversion of preferred stock to common stock	$ —	$ 37,559,302
Increase (decrease) in deferred stock compensation	$ 124,871	$ (313,089)
Leasehold improvement construction costs accrued	$ —	$ 434,924

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

Seattle Genetics, Inc.
Notes to Financial Statements
(Unaudited)

1. Basis of presentation

The accompanying unaudited financial statements of Seattle Genetics, Inc. ("Seattle Genetics" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited financial statements and footnotes included in the Company's annual report filed on Form 10-K as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. License agreements and research grant

During July 2002, Seattle Genetics received a license fee from Genencor International, Inc. under the terms of a strategic collaboration formed by the two companies in January 2002. At the time the parties formed the collaboration, Genencor made an equity investment of $3 million in Seattle Genetics and the parties agreed to pay each other specific fees and milestone payments. The two companies are sharing development costs and have the right to jointly commercialize any resulting products within the field. Currently, the companies are jointly developing SGN-17/19, the lead product candidate in the antibody-directed enzyme prodrug therapy (ADEPT) platform for the treatment of metastatic melanoma.

During September 2002, Seattle Genetics was awarded a Small Business Innovation Research (SBIR) grant from the National Institutes of Health (NIH) through the National Cancer Institute. The $128,800 grant was awarded under Phase I of the SBIR Program of the NIH to develop anti-cancer prodrugs that can be activated by tumor-associated enzymes. The amount awarded will be recognized over a one year period as the research is performed.

3. Net loss per share

Basic net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less the weighted-average number of restricted shares of common stock issued that are subject to repurchase. The Company has excluded all outstanding options to purchase common stock and restricted shares of common stock subject to repurchase from the calculation of diluted net loss per share, as such securities are antidilutive for all periods presented.

The following table presents the calculation of basic and diluted net loss per share (unaudited):

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net loss attributable to common stockholders	$ (5,088,136)	$ (6,235,703)	$ (17,346,157)	$ (15,595,272)
Weighted-average shares used in computing basic and diluted net loss per share	30,395,760	28,781,416	30,032,631	22,300,257
Basic and diluted net loss per share	$ (0.17)	$ (0.22)	$ (0.58)	$ (0.70)
Antidilutive securities not included in net loss per share calculation				
Options to purchase common stock	3,780,186	2,660,213	3,780,186	2,660,213
Restricted shares of common stock subject to repurchase	263,285	447,867	263,285	447,867
Total	4,043,471	3,108,080	4,043,471	3,108,080

4. Comprehensive loss

Comprehensive loss includes certain changes in equity that are excluded from net loss. Specifically, unrealized holding gains or losses in available for sale investments, which were reported separately in stockholders' equity, are included in accumulated other comprehensive loss. Comprehensive loss and its components were as follows (unaudited):

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net loss	$ (5,088,136)	$ (6,235,703)	$ (17,346,157)	$ (15,591,977)
Unrealized (loss) gain on securities available for sale	(28,422)	426,996	(265,825)	549,695
Comprehensive loss	$ (5,116,558)	$ (5,808,707)	$ (17,611,982)	$ (15,042,282)

5. Investments

Investments consist of the following (unaudited):

	Fair Value September 30, 2002	Fair Value December 31, 2001
U.S. corporate obligations	$ 17,947,948	$ 27,923,286
Mortgage-backed securities	17,419,819	11,288,709
U.S. government and agencies	6,060,128	7,286,394
Taxable Municipal bonds	—	565,156
Total	$ 41,427,895	$ 47,063,545
Reported as:		
Short-term investments	$ 22,001,068	$ 33,624,723
Restricted investments	1,000,758	982,002
Long-term investments	18,426,069	12,456,820
Total	$ 41,427,895	$ 47,063,545

6. Property and equipment

Property and equipment consists of the following (unaudited):

	September 30, 2002	December 31, 2001
Leasehold improvements	$ 3,793,133	$ 3,731,182
Laboratory equipment	2,708,801	2,135,986
Furniture and fixtures	842,347	761,683
Computers and office equipment	727,108	618,246
	8,071,389	7,247,097
Less: accumulated depreciation and amortization	(1,789,037)	(896,647)
Total	$ 6,282,352	$ 6,350,450

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. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, the negative of terms like these or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. 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. In evaluating these statements, you should specifically consider various factors, including the risks outlined under the caption "Important Factors That May Affect Our Business, Results of Operations and Our Stock Price" set forth at the end of this Item 2 and those contained from time-to-time in our other filings with the SEC. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

We focus on the discovery and development of monoclonal antibody-based drugs to treat cancer and related diseases. We have three monoclonal antibody-based technologies: genetically engineered monoclonal antibodies; monoclonal antibody-drug conjugates (ADCs); and antibody-directed enzyme prodrug therapy (ADEPT). Our technologies enable us to develop monoclonal antibodies that can kill cells on their own as well as those that require an increase in potency to destroy cancer cells. Using our expertise in cancer and monoclonal antibody technologies, we have constructed a diverse portfolio of product candidates targeted to many human tumors. Our technologies also provide us with an opportunity to partner with other companies that are developing monoclonal antibodies.

We have two monoclonal antibody-based product candidates in clinical trials, SGN-15 and SGN-30. SGN-15 targets a variety of cancers including prostate, lung and ovarian. SGN-30 is being developed to treat patients with various hematologic malignancies. We are also conducting preclinical development of SGN-35, SGN-14 and SGN-17/19. SGN-35 utilizes our high-potency ADC technology, which combines our proprietary stable linker system with a potent, synthetic cytotoxic drug. SGN-14, formerly under development through a license agreement with Genentech, is a genetically engineered anti-CD40 monoclonal antibody we intend to pursue on our own. SGN-17/19, which is being developed in collaboration with Genencor International, Inc., is the lead product candidate in our antibody-directed enzyme prodrug therapy (ADEPT) platform for the treatment of metastatic melanoma.

Since our inception, we have incurred substantial losses and, as of September 30, 2002, we had an accumulated deficit of $50.8 million. These losses and accumulated deficit have resulted from the significant costs incurred in the development of our monoclonal antibody-based technologies, clinical trial costs, manufacturing expenses of preclinical and clinical grade materials, general and administrative costs, and non-cash stock-based compensation expenses. We expect that our losses will continue to increase in the foreseeable future as we continue to expand our research, development, clinical trial activities and infrastructure in support of these activities.

Results of Operations

Three months ended September 30, 2002 and 2001

Revenues. Revenues increased to $405,000 for the three months ended September 30, 2002 from $70,000 for the three months ended September 30, 2001. Revenues for the three months ended September 30, 2002 were derived from the earned portion of technology-access fees of approximately $275,000, service and reagent fees of approximately $118,000 and a Small Business Innovative Research (SBIR) grant of approximately $12,000. Revenues for the three months ended September 30, 2001 were derived from the earned portion of a technology licensing fee of approximately $35,000, service and reagent fees of approximately $24,000 and a SBIR grant of approximately $11,000.

Research and development expenses. Research and development expenses, excluding non-cash stock-based compensation expenses, decreased 16% to $4.3 million for the three months ended September 30, 2002 from $5.1 million for the three months ended September 30, 2001. This decrease is primarily attributable to the timing of manufacturing campaigns for clinical grade materials of approximately $1.7 million, partially offset by increases in personnel expenses, clinical trial expenses and the increased usage of laboratory materials and supplies totaling approximately $782,000. The number of research and development personnel increased to 74 at September 30, 2002 from 47 at September 30, 2001. Research and development expenses for the three months ended September 30, 2002 were reduced by shared development funding under our collaboration agreement with Genencor. These shared development funds may fluctuate from quarter to quarter and may produce additional funding or expenses as the development activities progress. We anticipate that our research and development expenses will continue to grow in the foreseeable future as we expand our research, development, contract manufacturing and clinical trial activities, however, those expenses may fluctuate quarter to quarter based on the timing of manufacturing campaigns, accrual of patients in clinical trials and collaborative activities.

General and administrative expenses. General and administrative expenses, excluding non-cash stock-based compensation expenses, increased 39% to $1.1 million for the three months ended September 30, 2002 from $787,000 for the three months ended September 30, 2001. This increase was primarily due to additional administrative personnel. The number of general and administrative personnel increased to 21 at September 30, 2002 from 14 at September 30, 2001. We anticipate that general and administrative expenses will increase as our annualized costs related to adding personnel in support of our general and administrative operations increase.

Non-cash stock-based compensation expense. Non-cash stock-based compensation expense decreased 52% to $589,000 for the three months ended September 30, 2002 from $1.2 million for the three months ended September 30, 2001. This decrease is attributable to the accelerated amortization of deferred stock-based compensation, which will decrease in later years as the options vest, and to adjustments to options subject to variable accounting. Variable accounting treatment will result in charges or credits, recorded to non-cash stock-based compensation, dependent on fluctuations in the market value of the Company's common stock.

Investment income, net. Investment income decreased 39% to $486,000 for the three months ended September 30, 2002 compared to $800,000 for the three months ended September 30, 2001. This decrease is due to lower average balances of cash and cash equivalents, short-term and long-term investments and restricted investments at lower average interest yields for the three months ended September 30, 2002, compared to higher average balances and higher average interest yields for the three months ended September 30, 2001.

Nine months ended September 30, 2002 and 2001

Revenues. Revenues increased to $1.0 million for the nine months ended September 30, 2002 from $105,000 for the nine months ended September 30, 2001. Revenues for the nine months ended September 30, 2002 were derived from the earned portion of technology-access fees of approximately $477,000, service and reagent fees of approximately $468,000 and a Small Business Innovative Research (SBIR) grant of approximately $105,000. Revenues for the nine months ended September 30, 2001 were derived from the earned portion of a technology licensing fee of approximately $47,000, service and reagent fees of approximately $47,000 and a SBIR grant of approximately $11,000.

Research and development expenses. Research and development expenses, excluding non-cash stock-based compensation expenses, increased 26% to $14.5 million for the nine months ended September 30, 2002 from $11.5 million for the nine months ended September 30, 2001. This increase was principally due to an increase in rent and occupancy costs related to our headquarters and operations facility of approximately $1.2 million, an increase in personnel expenses of approximately $1.4 million and the proportionate increased usage of laboratory materials and supplies. These increases were offset by a decline in manufacturing costs for preclinical and clinical grade materials of approximately $1.1 million. The number of research and development personnel increased to 74 at September 30, 2002 from 47 at September 30, 2001. Research and development expenses for the nine months ended September 30, 2002 were reduced by shared development funding under our collaboration agreement with Genencor. These shared development funds may fluctuate from quarter to quarter and may produce additional funding or expenses as the development activities progress. We anticipate that research and development expenses will continue to grow in the foreseeable future as we expand our research, development, contract manufacturing and clinical trial activities, however, those expenses may fluctuate quarter to quarter based on the timing of manufacturing campaigns, accrual of patients to clinical trials and collaborative activities.

General and administrative expenses. General and administrative expenses, excluding non-cash stock-based compensation expenses, increased 39% to $3.3 million for the nine months ended September 30, 2002 from $2.3 million for the nine months ended September 30, 2001. This increase was primarily due to additional administrative personnel. The number of general and administrative personnel increased to 21 at September 30, 2002 from 14 at September 30, 2001. We anticipate that general and administrative expenses will increase as our annualized costs related to adding personnel in support of our general and administrative operations increase and will increase due to the increased annualized operating costs related to our headquarters and operations facility.

Non-cash stock-based compensation expense. Non-cash stock-based compensation expense decreased 45% to $2.3 million for the nine months ended September 30, 2002 from $4.1 million for the nine months ended September 30, 2001. This decrease is attributable to the accelerated amortization of deferred stock-based compensation, which will decrease in later years as the options vest, and to adjustments to options subject to variable accounting. Variable accounting treatment will result in charges or credits, recorded to non-cash stock-based compensation, dependent on fluctuations in the market value of the Company's common stock.

Investment income, net. Investment income decreased 29% to $1.6 million for the nine months ended September 30, 2002 compared to $2.3 million for the nine months ended September 30, 2001. This decrease is due to lower average balances of cash and cash equivalents, short-term and long-term investments and restricted investments at lower average interest yields for the nine months ended September 30, 2002, compared to higher average balances and higher average interest yields for the nine months ended September 30, 2001.

Liquidity and Capital Resources

At September 30, 2002, cash, cash equivalents, short-term and long-term investments totaled $49.3 million and restricted investments amounted to $1.0 million. We have financed our operations since inception through our initial public offering and concurrent private placement in March 2001, the private placement of equity securities prior to and subsequent to our initial public offering, revenue from license agreements, government grants and investment income, net. Our cash, cash equivalents, short-term and long-term investments and restricted investments are held in a variety of interest-bearing instruments, consisting of U.S. government and agency securities, high-grade U.S. corporate bonds, taxable municipal bonds, mortgage-backed securities, commercial paper and money market accounts.

Net cash used in operating activities for the nine months ended September 30, 2002 was $9.4 million compared to $9.5 million for the nine months ended September 30, 2001. Expenditures in both periods were a result of clinical trials, contract manufacturing, preclinical research and development and general administrative expenses in support of our operations. For both periods, we have financed a portion of the net cash used to support operating activities from various collaborative sources. These sources include technology access and license fees, and shared development funding received under our collaboration agreements with Eos Biotechnology, Celltech Group, Genentech and Genencor. We expect cash used in operating activities to increase in the future as we increase our number of employees, expand our contract manufacturing initiatives and increase the patient enrollments in our clinical trials. However, we may experience quarterly fluctuations in cash used in operations based on the timing of manufacturing campaigns and cash provided from collaboration activities.

Net cash provided by investing activities for the nine months ended September 30, 2002 was $3.4 million compared to net cash used in investing activities of $35.0 million for the nine months ended September 30, 2001. Cash provided by investing activities for the nine months ended September 30, 2002 included $4.8 million from sales and maturities of investments, net of the purchase of investments. This compared to $30.2 million from the purchase of investments, net of sales and maturities of investments for the nine months ended September 20, 2001. Purchases of property and equipment were $1.4 million for the nine months ended September 30, 2002 compared to $4.9 million for the nine months ended September 30, 2001. Capital expenditures for the nine months ended September 20, 2001 included leasehold improvements, lab equipment and furniture purchased for our new headquarters and operations facility.

Net cash provided by financing activities was $6.6 million for the nine months ended September 30, 2002 compared to $47.1 million for the nine months ended September 30, 2001. Financing activities during the nine months ended September 30, 2002 consisted primarily of the receipt of $3.0 million from the private placement of common stock with Genencor and $3.5 million from the private placement of common stock with Genentech. Financing activities during the nine months ended September 30, 2001 included net proceeds of approximately $44.4 million from our initial public offering and approximately $2.0 million from our concurrent private placement.

As part of the terms of our office and laboratory lease, approximately $1.0 million of our investments are restricted as collateral for certain obligations under the lease. These investment securities are restricted as to withdrawal and are managed by a third party. The lease terms provide for changes in the amounts pledged as restricted securities based upon the company's market capitalization. In the event that our market capitalization falls below a certain threshold, we will be obligated to increase our restricted investment balance to approximately $3.4 million.

We expect to incur substantial costs as we continue to develop and commercialize our product candidates. We anticipate that our rate of spending will accelerate as the result of the increased costs and expenses associated with clinical trials, regulatory filings, manufacturing, and research and development collaborations. However, we may experience fluctuations in incurring these costs from quarter to quarter based on the timing of manufacturing campaigns, accrual of patients to clinical trials and collaborative activities. Our future expenditures and capital requirements will depend on numerous factors, including the progress of our research and development activities, the cost of filing and enforcing any patent claims and other intellectual property rights, competing technological and market developments, and our ability to establish license and collaboration agreements.

We believe that our current cash and investment balances will be sufficient to enable us to meet our anticipated expenditures and operating requirements for at least the next 12 months. We intend to seek additional funding through some or all of the following methods: corporate collaborations, licensing arrangements and public or private equity sales. However, additional financing may not be available on favorable terms or at all. If we are unable to raise additional funds should we need them, we may be required to delay, reduce or eliminate some of our development programs and some of our clinical trials, which may adversely affect our business and operations.

Summary of Critical Accounting Policies

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We believe the following critical accounting policies represent the more significant judgments and estimates used in the preparation of our financial statements.

Collaboration and license agreements. Revenues from the sale of products and services are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fees are fixed and determinable and collectibility is reasonably assured. Revenues from up front payments, technology license fees and milestone payments received for the delivery of products and services representing the culmination of a separate earnings process are recognized when due and the amounts are judged to be collectible. Revenues from up front payments, technology license fees and milestone payments received in connection with other rights and services, which represent continuing obligations to us, are deferred and recognized ratably over the term of the agreement.

Stock-based compensation. We grant stock options to employees for a fixed number of shares with an exercise price equal to the fair market value of our common stock on the date of grant. We recognize no compensation expense on these employee stock option grants. We also have, in the past, granted stock options for a fixed number of shares to employees with an exercise price less than the fair market value of our common stock on the date of grant. We recognize the difference between the exercise price and fair market value as compensation expense, which is recognized on an accelerated basis over the vesting period of the stock options. For certain stock options granted to nonemployees, we recognize as expense the estimated fair value of such options as calculated by the Black-Scholes option pricing model, which is re-measured during the service period. Fair value is determined using allowable methodologies and the expense is amortized over the vesting period of each option or the recipient's contractual arrangement, if shorter.

Investments. Our investments are diversified among high-credit quality debt securities in accordance with our investment policy. We classify our investments as available-for-sale, which are reported at fair market value with the related unrealized gains and losses included as a component of stockholders' equity (deficit). Realized gains and losses and declines in value of investments judged to be other than temporary are included in other income (expense). To date, the carrying values of our investments have not been adjusted due to declines in value judged to be other than temporary. Our investments are subject to interest rate risk and will rise and fall in value if market interest rates change, although we do not expect any material loss from such interest rate changes.

Income Taxes. We have net deferred tax assets, which are fully offset by a valuation allowance due to our determination that the criteria for recognition have not been met. We believe that a full valuation allowance will be required on losses reported in future periods. In the event we were to determine that we would be able to realize our net deferred tax assets in the future, an adjustment to the deferred tax asset would be made, increasing income (or decreasing losses) in the period in which such a determination was made.

On an ongoing basis, we evaluate our estimates, including those related to collaboration and license agreements, stock-based compensation, investments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions and conditions.

Subsequent Events

On October 8, 2002, we received notification from our collaborator Genentech, Inc. that they would not continue development of the product candidate SGN-14. Genentech licensed SGN-14, an anti-CD40 monoclonal antibody, from us in June 1999. We intend to pursue development of SGN-14 on our own. Genentech is assisting in transferring technology created during the collaboration back to us, and is entitled to receive royalties on any resultant sales of products that use Genentech technology.

On November 7, 2002, we provided an update on the status of our clinical programs. We announced that we have initiated a Phase I/II clinical trial of SGN-30 in patients with hematologic malignancies. We also announced that we are currently dose-escalating in our Phase II clinical trial of SGN-15 in non-small cell lung cancer, that we have now accrued a sufficient number of patients to conduct an interim analysis of data in our Phase II trial of SGN-15 in hormone refractory prostate cancer and that we have completed accrual and decided to close our Phase II clinical trial of SGN-15 in breast cancer. All three of these trials were designed to evaluate SGN-15 in combination with Taxotere versus Taxotere alone. In addition, we announced that we are discontinuing development of SGN-10 to better focus our efforts on other clinical and preclinical product candidates. With the closure of our SGN-10 program, at present we are no longer actively pursuing research or development of single-chain immunotoxins, although we maintain intellectual property in this area and it is possible that we may decide to conduct further activity in the future.

Important Factors That May Affect Our Business, Results of Operations and Our Stock Price

You should carefully consider the risks described below, together with all of the other information included in this quarterly report on Form 10-Q and the information incorporated by reference herein. If we do not effectively address the risks we face, our business will suffer and we may never achieve or sustain profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 a history of net losses. We expect to continue to incur net losses and may not achieve or maintain profitability for some time, if at all. Our limited operating history may make it difficult to evaluate our business and an investment in our common stock.

We incorporated in July 1997 and have a limited operating history upon which an investor may evaluate our operations and future prospects. We have incurred net losses in each of our years of operation and, as of September 30, 2002, we had an accumulated deficit of approximately $50.8 million. We expect to make substantial expenditures to further develop and commercialize our product candidates and expect that our rate of spending will accelerate as the result of the increased costs and expenses associated with research, development, clinical trials, manufacturing, regulatory approvals and commercialization of our potential products. In the near term, we expect our revenues to be derived from milestone payments, technology licensing fees and sponsored research fees under existing and future collaborative arrangements. In the longer term, our revenues may also include royalties from collaborations with current and future strategic partners and commercial product sales. However, our revenue and profit potential is unproven and our limited operating history makes our future operating results difficult to predict.

Our product candidates are at an early stage of development and, if we are not able to successfully develop and commercialize them, we may not generate sufficient revenues to continue our business operations.

All of our product candidates are in early stages of development. Significant further research and development, financial resources and personnel will be required to develop commercially viable products and obtain regulatory approvals. Currently, SGN-15 and SGN-30 are our only product candidates in clinical trials. We are also conducting preclinical development, either alone or in collaboration with others, of SGN-35, SGN-14 and SGN-17/19. We expect that much of our efforts and expenditures over the next few years will be devoted to these clinical and preclinical product candidates. We have no drugs that have received regulatory approval for commercial sale.

Our ability to commercialize our product candidates depends on first receiving FDA approval. The future commercial success of these product candidates will depend upon their acceptance by physicians, patients and other key decision-makers as therapeutic and cost-effective alternatives to currently available products. If we fail to gain approval from the FDA or to produce a commercially successful product, we may not be able to earn sufficient revenues to continue as a going concern.

We will continue to need significant amounts of additional capital that may not be available to us.

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 and clinical trial activities. We believe that our existing cash and investment securities will be sufficient to fund our operations for at least the next 12 months. However, changes in our business may occur that would

consume available capital resources sooner than we expect. If adequate funds are not available to us, we will be required to delay, reduce the scope of or eliminate one or more of our development programs. We do not know whether additional financing will be available when needed, or that, if available, we will obtain financing on terms favorable to our stockholders or us. To the extent that we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. To the extent that we raise additional funds through collaboration and licensing arrangements, we may be required to relinquish some rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us.

Clinical trials for our product candidates are expensive, time consuming and their outcome is uncertain.

Before we can obtain regulatory approval for the commercial sale of any product candidate that we wish to develop, we are required to complete preclinical development and extensive clinical trials in humans to demonstrate its safety and efficacy. Each of these trials requires the investment of substantial expense and time. We are currently conducting multiple clinical trials of our two most advanced product candidates, and expect to commence additional trials of these and other product candidates. There are numerous factors that could delay each of these clinical trials or prevent us from completing these trials successfully.

Ongoing and future clinical trials of our product candidates may not show sufficient safety or efficacy to obtain requisite regulatory approvals. We recently decided to discontinue clinical trials of SGN-10 and close our SGN-10 program. We also still have limited clinical data and have seen evidence of gastrointestinal toxicity with SGN-15. We have completed and closed accrual on our clinical trials of SGN-15 in combination with Taxotere for the treatment of colon cancer and breast cancer. Based on the data generated in those trials, we do not intend to pursue SGN-15 in combination with Taxotere for the treatment of colon cancer or breast cancer. Commercialization of our product candidates will ultimately depend upon successful completion of additional research and development and testing in both preclinical and clinical trials. At the present time, SGN-15 and SGN-30 are our only product candidates in clinical trials and SGN-14, SGN-17/19, and SGN-35 are our only product candidates in preclinical development. As a result, any delays or difficulties we encounter with these product candidates may impact our ability to generate revenue and cause our stock price to decline significantly.

Furthermore, success in preclinical and early clinical trials does not ensure that large-scale trials will be successful nor does it predict final results. Acceptable results in early trials may not be repeated in later trials. A number of companies in the biotechnology industry have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. Negative or inconclusive results or adverse medical events during a clinical trial could cause it to be redone or terminated. In addition, failure to construct appropriate clinical trial protocols could result in the test or control group experiencing a disproportionate number of adverse events and could cause a clinical trial to be redone or terminated. The length of time necessary to complete clinical trials and to submit an application for marketing approval for a final decision by the FDA or another regulatory authority may also vary significantly based on the type, complexity and novelty of the product involved, as well as other factors.

We may choose to, or may be required to, delay, suspend, repeat or terminate our clinical trials if patient enrollment cannot be achieved on a timely basis or if the trials are not conducted in accordance with regulatory requirements, the results are negative or inconclusive or the trials are not well designed.

Clinical trials must be conducted in accordance with the FDA's guidelines and are subject to oversight by the FDA and institutional review boards at the medical institutions where the clinical trials are conducted. In addition, clinical trials must be conducted with product candidates produced under the FDA's current Good Manufacturing Practices, and may require large numbers of test patients. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the existence of competing clinical trials and the availability of alternative or new treatments. We depend on medical institutions to conduct our clinical trials and to the extent they fail to enroll patients for our clinical trials or are delayed for a significant time in achieving full enrollment, we may be affected by increased costs, program delays or both, which may harm our business.

In addition, we or the FDA might delay or halt our clinical trials of a product candidate for various reasons, including: deficiencies in the conduct of the clinical trials; the product candidate may have unforeseen adverse side effects; the time required to determine whether the product candidate is effective may be longer than expected; fatalities arising during a clinical trial due to medical problems that may not be related to clinical trial treatments; the product candidate may not appear to be more effective than current therapies; we may have insufficient patient enrollment in the clinical trials; the quality or stability of the product candidate may fall below acceptable standards; or we may not be able to produce sufficient quantities of the product candidate to complete the trials.

Due to these and other factors, our current product candidates or any of our other future product candidates could take a significantly longer time to gain regulatory approval than we expect or may never gain approval, which could reduce or eliminate our revenue and delay or terminate the potential commercialization of our product candidates.

We currently rely on third-party manufacturers and other third parties for production of our drug products and our dependence on these manufacturers may impair the development of our product candidates.

We do not currently have the ability to manufacture the drug products that we need to conduct our clinical trials. For SGN-15, we presently rely on drug products that were produced and vialed by Bristol-Myers Squibb and contract manufacturers retained by Bristol-Myers Squibb. We have entered into, and intend to continue to enter into, agreements with contract manufacturers to supplement our supplies of SGN-15 as necessary. We have contracted with ICOS Corporation to manufacture additional clinical supplies of the monoclonal antibody BR96 and with Albany Molecular Research, Inc. to manufacture doxorubicin hydrazone, which are the two components of SGN-15. For our second product candidate in clinical trials, SGN-30, we contracted with ICOS to manufacture preclinical and clinical supplies. In addition, we rely on other third parties to perform additional steps in the manufacturing process, including conjugation, vialing and storage of our product candidates.

For the foreseeable future, we expect to continue to rely on contract manufacturers and other third parties to produce, vial and store sufficient quantities of our product candidates for use in our clinical trials. If our contract manufacturers or other third parties fail to deliver our product candidates for clinical use on a timely basis, with sufficient quality, and at commercially reasonable prices, and we fail to find replacement manufacturers or to develop our own manufacturing capabilities, we may be required to delay or suspend clinical trials or otherwise discontinue development and production of our product candidates.

Contract manufacturers have a limited number of facilities in which our product candidates can be produced. We currently rely on contract manufacturers to produce our product candidates under FDA current Good Manufacturing Practices to meet acceptable standards for our clinical trials. Such standards may change, affecting the ability of contract manufacturers to produce our product candidates on the schedule we require for our clinical trials. Contract manufacturers may not perform or may discontinue their business before the time required by us to successfully produce and market our product candidates.

In some circumstances we rely on collaborators to assist in the research and development activities necessary for the commercialization of our product candidates. If we are not able to locate suitable collaborators or if our collaborators do not perform as expected, we may not be able to commercialize our product candidates.

We have established and intend to continue to establish alliances with third-party collaborators to develop and market some of our current and future product candidates and to license our antibody-drug conjugate technology. These collaborations provide us cash and revenues through technology access and license fees, sponsored research fees, equity sales and potential milestone and royalty payments. We use these funds to partially fund the development costs of our internal pipeline of product candidates. Collaborations can also create and strengthen our relationships with leading biotechnology and pharmaceutical companies and may provide synergistic benefits by combining our technologies with the technologies of our collaborators.

We currently have a collaboration with Genencor regarding our ADEPT technology and co-development of our SGN-17/19 product candidate for the treatment of metastatic melanoma. In addition we have licensed our antibody-drug conjugate technology to Eos Biotechnology, Celltech Group and Genentech for the development of antibody-drug conjugate therapies. Under certain conditions, these collaborators may terminate their agreements with us and discontinue use of our technologies. For example, Genentech recently terminated its rights to develop SGN-14, which we intend to pursue on our own.

We cannot control the amount and timing of resources our collaborators may devote to products incorporating our technology. Additionally, our relationships with our collaborators divert significant time and effort of our scientific staff and management team and require effective allocation of our resources to multiple internal and collaborative projects. Our collaborators may separately pursue competing products, therapeutic approaches or technologies to develop treatments for the diseases targeted by us or our collaborators. Even if our collaborators continue their contributions to the collaborative arrangements, they may nevertheless determine not to actively pursue the development or commercialization of any resulting products. Our collaborators may fail to perform their obligations under the collaboration agreements or may be slow in performing their obligations. If any of our collaborators terminate or breach our agreements with them, or otherwise fail to complete their obligations in a timely manner, it may have a detrimental effect on our financial position by reducing or eliminating the potential for us to receive technology access and license fees, milestones and royalties, as well as possibly requiring us to devote additional efforts and incur costs associated with pursuing internal development of product candidates. Furthermore, if our collaborators do not prioritize and commit substantial resources to programs associated with our product candidates, we may be unable to commercialize our product candidates, which would limit our ability to generate revenue and become profitable. In the future, we may not be able to locate third party collaborators to develop and market our product candidates and we may lack the capital and resources necessary to develop all our product candidates alone.

We depend on a small number of collaborators for most of our current revenue. The loss of any one of these collaborators could result in a substantial decline in our revenue.

We have collaborations with a limited number of companies. To date, almost all of our revenue has resulted from payments made under agreements with our corporate collaborators, and we expect that most of our future revenue will continue to come from corporate collaborations until the approval and commercialization of one or more of our product candidates. The failure of our collaborators to perform their obligations under their agreements with us, including paying license or technology fees, milestone

payments or royalties, could have a material adverse effect on our financial performance. Payments under our existing and future collaboration agreements are also subject to significant fluctuations in both timing and amount, which could cause our revenue to fall below the expectations of securities analysts and investors and cause a decrease in our stock price.

We rely on license agreements for certain aspects of our product candidates and technology. Failure to maintain these license agreements could prevent us from developing or commercializing our product candidates and technology.

We have entered into agreements with third-party commercial and academic institutions to license technology for use in our ADC technology and product candidates. Currently, we have license agreements with Bristol-Myers Squibb, Arizona State University, Proacta Therapeutics, Mabtech AB and the University of Miami, among others. Some of these license agreements contain diligence and milestone-based termination provisions, in which case our failure to meet any agreed upon diligence requirements or milestones may allow the licensor to terminate the agreement. Many of our license agreements grant us exclusive licenses to the underlying technologies. If our licensors terminate our license agreements or if we are unable to maintain the exclusivity of our exclusive license agreements, we may be unable to continue to develop and commercialize our product candidates.

If we are unable to protect our proprietary technology, trade secrets or know-how, we may not be able to operate our business profitably. Similarly, if we fail to sustain and further build our intellectual property rights, competitors may be able to develop competing therapies.

Our success depends, in part, on our ability to maintain protection for our products and technologies under the patent laws or other intellectual property laws of the United States, France, Germany, Japan, United Kingdom and Italy, as well as other countries. We have filed several patent applications with the U.S. Patent and Trademark Office for our technologies that are currently pending. We also have exclusive rights to issued U.S. patents, foreign counterpart patents and patent applications in the countries listed above relating to our monoclonal antibody-based technology. Our rights to these patents are derived from worldwide licenses from Bristol-Myers Squibb, Arizona State University and Proacta Therapeutics, among others. In addition, we have licensed or optioned rights to pending U.S. patent applications and foreign counterpart patents and patent applications to third parties.

The standards which the U.S. Patent and Trademark Office uses to grant patents are not always applied predictably or uniformly and can change. Consequently, the pending patent applications may not be allowed and, if allowed, may not contain the type and extent of patent claims that will be adequate to conduct our business as planned. Additionally, any issued patents may not contain claims that will permit us to stop competitors from using similar technology. Similarly, the standards that courts use to interpret patents are not always applied predictably or uniformly and can change, particularly as new technologies develop. As a result, the protection, if any, given by our patents if we attempt to enforce them or if they are challenged in court is uncertain. In addition, we rely on certain proprietary trade secrets and know-how. We have taken measures to protect our unpatented trade secrets and know-how, including the use of confidentiality and assignment of inventions agreements with our employees, consultants and certain contractors. It is possible, however, that these persons may breach the agreements or that our competitors may independently develop or otherwise discover our trade secrets.

We may incur substantial costs and lose important rights as a result of litigation or other proceedings relating to patent and other intellectual property rights.

The defense and prosecution of intellectual property rights, U.S. Patent and Trademark Office interference proceedings and related legal and administrative proceedings in the United States and elsewhere involve complex legal and factual questions. These proceedings are costly and time-consuming. If we become involved in any litigation, interference or other administrative proceedings, we will incur substantial expense and it will divert the efforts of our technical and management personnel. An adverse determination may subject us to significant liabilities or require us to seek licenses that may not be available from third parties on commercially reasonable terms, if at all. We may be restricted or prevented from developing and commercializing our product candidates in the event of an adverse determination in a judicial or administrative proceeding, or if we fail to obtain necessary licenses.

If we lose our key personnel or are unable to attract and retain additional qualified personnel, our future growth and ability to compete would suffer.

We are highly dependent on the efforts and abilities of the principal members of our managerial and scientific staff, particularly Dr. H. Perry Fell, our Chairman and Chief Executive Officer, and Dr. Clay B. Siegall, our President and Chief Scientific Officer. Additionally, we have several scientific personnel with significant and unique expertise in monoclonal antibodies and related technologies. The loss of the services of principal members of our managerial or scientific staff may prevent us from achieving our business objectives.

The competition for qualified personnel in the biotechnology field is intense, and we rely heavily on our ability to attract and retain qualified scientific, technical and managerial personnel. Our future success depends upon our ability to attract, retain and motivate highly skilled employees. In order to commercialize our products successfully, we will be required to expand our workforce, particularly in the areas of manufacturing, clinical trials management, regulatory affairs, business development and sales and marketing. These activities will require the addition of new personnel, including management, and the development of additional expertise by existing management

personnel. We face intense competition for qualified individuals from numerous pharmaceutical and biotechnology companies, as well as academic and other research institutions. To the extent we are not able to attract and retain these individuals on favorable terms, our business may be harmed.

We face intense competition and rapid technological change, which may result in others discovering, developing or commercializing competing products before or more successfully than we do.

The biotechnology and pharmaceutical industries are highly competitive and subject to significant and rapid technological change. We are aware of several pharmaceutical and biotechnology companies that are actively engaged in research and development in areas related to antibody therapy. Some of these companies have commenced clinical trials of antibody products or have successfully commercialized antibody products. Many of these companies are developing products for the same disease indications as we are. Some of these competitors have received regulatory approval or are developing or testing product candidates that do or may in the future compete directly with our product candidates. For example, Genentech, Immunogen, IDEC Pharmaceuticals, Medarex and Wyeth are developing and/or marketing products that may compete with ours. Other potential competitors include large, fully integrated pharmaceutical companies and more established biotechnology companies, which have significant resources and expertise in research and development, manufacturing, testing, obtaining regulatory approvals and marketing. Also, academic institutions, government agencies and other public and private research organizations conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and marketing. It is possible that these competitors will succeed in developing technologies that are more effective than those being developed by us or that would render our technology obsolete or noncompetitive.

If our competitors develop superior products, manufacturing capability or marketing expertise, our business may fail.

Our business may fail because we face intense competition from major pharmaceutical companies and specialized biotechnology companies engaged in the development of other products directed at cancer. Many of our competitors have greater financial and human resources expertise and more experience in the commercialization of product candidates. Our competitors may, among other things: develop safer or more effective products; implement more effective approaches to sales and marketing; develop less costly products; obtain quicker regulatory approval; have access to more manufacturing capacity; form more advantageous strategic alliances; or establish superior proprietary positions. In addition, if we receive regulatory approvals, we may compete with well-established, FDA approved therapies that have generated substantial sales over a number of years. We anticipate that we will face increased competition in the future as new companies enter our market and scientific developments surrounding other cancer therapies continue to accelerate.

We have no experience in commercializing products on our own and, to the extent we do not develop this ability or contract with a third party to assist us, we may not be able to successfully sell our product candidates.

We do not have a sales and marketing force and may not be able to develop this capacity. If we are unable to establish sales and marketing capabilities, we will need to enter into sales and marketing agreements to market our products in the United States. For sales outside the United States, we plan to enter into third-party arrangements. In these foreign markets, if we are unable to establish successful distribution relationships with pharmaceutical companies, we may fail to realize the full sales potential of our product candidates.

Additionally, our product candidates may not gain market acceptance among physicians, patients, healthcare payors and the medical community. The degree of market acceptance of any approved product candidate will depend on a number of factors, including: establishment and demonstration of clinical efficacy and safety; cost-effectiveness of a product; its potential advantage over alternative treatment methods; and marketing and distribution support for the product.

Moreover, government health administrative authorities, private health insurers and other organizations are increasingly challenging both the need for and the price of new medical products and services. Consequently, uncertainty exists as to the reimbursement status of newly approved therapeutics and diagnostics. For these and other reasons, physicians, patients, third-party payors and the medical community may not accept and utilize any product candidates that we develop and even if they do, reimbursement may not be available for our products to enable us to maintain price levels sufficient to realize an appropriate return on our investment in research and product development.

Our stock price may be volatile and your shares may suffer a decline in value.

The market prices for securities of biotechnology companies have in the past been, and are likely to continue in the future to be, very volatile. For example, during the three months ended September 30, 2002, our common stock price fluctuated between $2.62 per share and $5.15 per share. As a result of fluctuations in the price of our common stock, you may be unable to sell your shares at or above the price you paid for them. The market price of our common stock may be subject to substantial volatility in response to many risk factors listed in this section, and others beyond our control, including: announcements regarding the results of discovery efforts and preclinical and clinical activities by us or our competitors; changes in our existing corporate partnerships or licensing arrangements; establishment of new corporate partnering or licensing arrangements by us or our competitors; developments or disputes concerning our proprietary rights;

issuance of new or changed analysts' reports and recommendations regarding us or our competitors; share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; changes in government regulations; and economic or other external factors.

We face product liability risks and may not be able to obtain adequate insurance to protect us against losses.

We currently have no products that have been approved for commercial sale. However, the current and future use of our product candidates by us and our corporate collaborators in clinical trials, and the sale of any approved products in the future, may expose us to liability claims. These claims might be made directly by consumers or healthcare providers or indirectly by pharmaceutical companies, our corporate collaborators or others selling such products. We may experience financial losses in the future due to product liability claims. We have obtained limited general commercial liability insurance coverage for our clinical trials. We intend to expand our insurance coverage to include the sale of commercial products if marketing approval is obtained for product candidates in development. However, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses. If a successful product liability claim or series of claims is brought against us for uninsured liabilities or in excess of insured liabilities, our assets may not be sufficient to cover such claims and our business operations could be impaired.

Our existing stockholders have significant control of our management and affairs, which they could exercise against your best interests.

Our executive officers and directors and greater than 5% stockholders, together with entities that may be deemed affiliates of, or related to, such persons or entities, beneficially own approximately 67% of our outstanding common stock. As a result, these stockholders, acting together, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying, deferring or preventing a change in control, including a merger, consolidation, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control, which might affect the market price of our common stock.

We may engage in future acquisitions that increase our capital requirements, dilute our stockholders, cause us to incur debt or assume contingent liabilities and subject us to other risks.

We actively evaluate various strategic transactions on an ongoing basis, including licensing or acquiring complementary products, technologies or businesses. Any potential acquisitions may entail numerous risks, including increased operating expenses and cash requirements, assimilation of operations and products, retention of key employees, diversion of our management's attention and uncertainties in our ability to maintain key business relationships of the acquired entities. In addition, if we undertake acquisitions, we may issue dilutive securities, assume or incur debt obligations, incur large one-time expenses and acquire intangible assets that could result in significant future amortization expense. Moreover, we may not be able to locate suitable acquisition opportunities and this inability could impair our ability to grow or obtain access to technology or products that may be important to the development of our business.

Anti-takeover provisions could make it more difficult for a third party to acquire us.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of Seattle Genetics without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. Further, certain provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of Seattle Genetics, which could have an adverse effect on the market price of our stock. In addition, our charter documents provide for a classified board, which may make it more difficult for a third party to gain control of our Board of Directors. Similarly, state anti-takeover laws in Washington related to corporate takeovers may prevent or delay a change of control of Seattle Genetics.

Item 3. Quantitative and Qualitative Disclosure of Market Risk

In accordance with our policy, we do not use derivative financial instruments in our investment portfolio. We invest in high quality interest-bearing instruments, consisting of U.S. government and agency securities, high-grade U.S. corporate bonds, taxable municipal bonds, mortgage-backed securities, commercial paper and money market accounts. Such securities are subject to interest rate risk and will rise and fall in value if market interest rates change, however, we do not expect any material loss from such interest rate changes.

Item 4. Controls and Procedures

We evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Exchange Act and the rules and forms of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including our principal executive officer and principal financial officer within the 90-day period prior to the filing of this Quarterly Report on Form 10-Q. The principal executive officer and principal financial officer have concluded, based on their review, that our disclosure controls and procedures, as defined at Exchange Act Rules 13a-14(c) and 15d-14(c), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

(c) Recent Sales of Unregistered Securities

None.

(d) Use of Proceeds from Sale of Registered Securities

Seattle Genetics completed its initial public offering of common stock pursuant to a Registration Statement on Form S-1 under the Securities Act (File No. 333-50266) that was declared effective by the SEC on March 6, 2001. The aggregate gross proceeds of the offering were $49.0 million, which resulted in net proceeds to us of approximately $44.4 million after deducting underwriting discounts and commissions and other offering expenses of $4.6 million. As of September 30, 2002, we had used $28.7 million of the offering proceeds, including $11.6 million for preclinical research and development activities and general corporate purposes, $8.5 million for contract manufacturing costs, $6.8 million for purchase of property and equipment and $1.8 million for clinical trial expenses.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

In accordance with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002 (the"Act"), we are required to disclose the non-audit services approved by our Audit Committee to be performed by PricewaterhouseCoopers LLP, our external auditor. Non-audit services are defined in the Act as services other than those provided in connection with an audit or a review of the financial statements of a company. Our Audit Committee has approved the engagement of PricewaterhouseCoopers LLP for the non-audit services of preparing our federal income tax return.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit Number	
3.1*	Amended and Restated Certificate of Incorporation of the Registrant
3.2*	Bylaws of the Registrant
4.1*	Form of Stock Certificate
4.2*	Amended and Restated Investors Rights Agreement dated December 22, 2000 by and among the Registrant and certain holders of the Registrant's capital stock.
99.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed as an exhibit to Registrant's registration statement on Form S-1, File No. 333-50266, originally filed with the Securities and Exchange Commission on November 20, 2000, as subsequently amended, and incorporated herein by reference.

(b) Reports on Form 8-K:

None

SIGNATURES

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

Seattle Genetics, Inc.

By: /s/ Tim Carroll
Tim Carroll
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Date: November 11, 2002

CERTIFICATIONS

I, H. Perry Fell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Seattle Genetics, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 11, 2002

/s/ H. Perry Fell
H. Perry Fell
Chief Executive Officer

I, Tim Carroll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Seattle Genetics, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 11, 2002

/s/ Tim Carroll
Tim Carroll
Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	
3.1*	Amended and Restated Certificate of Incorporation of the Registrant
3.2*	Bylaws of the Registrant
4.1*	Form of Stock Certificate
4.2*	Amended and Restated Investors Rights Agreement dated December 22, 2000 by and among the Registrant and certain holders of the Registrant's capital stock.
99.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed as an exhibit to Registrant's registration statement on Form S-1, File No. 333-50266, originally filed with the Commission on November 20, 2000, as subsequently amended, and incorporated herein by reference.

Exhibit 99.1

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

In connection with the Quarterly Report of Seattle Genetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Perry Fell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ H. Perry Fell
H. Perry Fell
Chief Executive Officer
November 11, 2002

Exhibit 99.2

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

In connection with the Quarterly Report of Seattle Genetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tim Carroll, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Tim Carroll
Tim Carroll
Chief Financial Officer
November 11, 2002